



Business Performance for 3rd Quarter FY2004 and Revisions to FY2004 Forecasts (FY ending March 2005)(Consolidated Report)

February 8, 2005

Company Name **Net One Systems Co., Ltd.**
(Stock code Number: 7518 Tokyo Stock Exchange)

(URL <http://www.netone.co.jp>)

Company Title President & CEO Osamu Sawada

Representative

Inquiries Title Director, Tadashi Arima Tel: (03) 5462-0800
Manager of Operation Department

1. Matters related to preparation of Business Performance for 3rd Quarter of FY2004

Usage of simplified method for accounting standard : Yes

(Details) Accounting standard of corporation tax: calculated using annual forecast tax rate based on statutory effective tax rate

Disparity between accounting procedures of FY ended Mar. 2004 and current quarter : None

Change in scope of consolidation and equity method : None

2. Results of FY2004 1st Quarter (April 1, 2004 to December 31, 2004)

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

	Sales		Operating Profit		Ordinary Profit	
	Million yen	%	Million yen	%	Million yen	%
Quarter ended December 31, 2004	89,201	(11.6)	6,556	(34.9)	6,530	(34.2)
Quarter ended December 31, 2003	79,923	(46.5)	4,860	(56.5)	4,865	(51.2)
(Reference) Year ended Mar. 2004	121,637		10,608		10,608	

	Quarterly Net Income		Net Income per share		Net Income per share (assuming full dilution)	
	Million yen	%	Yen	Sen	Yen	Sen
Quarter ended December 31, 2004	3,561	(30.8)	6,456	47	—	—
Quarter ended December 31, 2003	2,723	(33.4)	9,890	49	9,878	55
(Reference) Year ended Mar. 2004	6,093		21,929	32	21,909	28

(Note) Percentage: increase/decrease against previous FY 3rd quarter on sales, operating profit, etc.

(2) Changes in financial position

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio to total assets	Shareholders' Equity per share	
Quarter ended December 31, 2004	73,957 <small>Million yen</small>	55,346 <small>Million yen</small>	74.8 <small>%</small>	100,321 <small>Yen</small>	50 <small>Sen</small>
Quarter ended December 31, 2003	68,556	48,709	71.1	176,583	12
(Reference) Year ended Mar. 2004	74,108	52,125	70.3	188,779	31

(3) Cash Flow

	Net cash provided by operating activities	Net cash used in investing activities	Net cash provided by financing activities	Cash and cash equivalents at end of the quarter (FY)
Quarter ended December 31, 2004	11,425 <small>Million Yen</small>	(1,603) <small>Million Yen</small>	(273) <small>Million Yen</small>	13,209 <small>Million Yen</small>
Quarter ended December 31, 2003	(10,150)	(2,925)	5,052	1,151
(Reference) Year ended Mar. 2004	(2,814)	(2,956)	257	3,661

3. Consolidated Forecast for the FY2004 (April 1, 2004 to March 31, 2005)

	Sales	Ordinary Profit	Current Net Income
Fiscal Year	134,000 <small>Million yen</small>	10,000 <small>Million yen</small>	5,600 <small>Million yen</small>

(Reference) Forecast net income per share for FY 10,150.66 yen

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 Revisions to Consolidated and Non-Consolidated FY2004 Forecasts on page 5 of consolidated report.

Reference information regarding current quarter (FY) net income per share, current quarter (FY) net income per share assuming full dilution, 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 3Q April 1, 2004 to December 31, 2004		Previous FY 3Q April 1, 2003 to December 31, 2003		Previous FY April 1, 2003 to March 31, 2004	
	Yen	₪	Yen	₪	Yen	₪
Current quarter (FY) net income per share	6,456	47	4,945	25	10,964	66
Current quarter (FY) net income per share assuming full dilution	—————		4,939	28	10,954	64
Shareholder's equity per share	100,321	50	88,291	56	94,389	66

(Note) As there were no diluted shares, current quarter (FY) net income per share assuming full dilution for current FY3Q has been left blank.

Operating Results (Consolidated)

During the third quarter of current FY, in private sector, although the interest for IT facility investment aimed at decreasing total cost and integrating voice and data continued to be strong, spending continued to be cautious and scale of business opportunities has become smaller. On the other hand, the telecommunication sector demand for network equipment to realize expansions and enhancements to high speed large scale telecommunication web focusing on local IP web continued to be strong. Public related works tenders aimed at providing various services using networks was increasing, but budget became increasingly more difficult.

Under this environment, current third quarter (April 1, 2004 to December 31, 2004) business performance for orders accepted was 100,088M yen (13.9% increase from previous FY 3Q,) sales was 89,201M yen (11.6% increase from previous FY 3Q) and end of the term backlog of unfilled orders was 48,269M yen (12.4% increase from previous FY 3Q.) For sales based on Product Category, Network Integration Products and Network Computing Products (NI and NC) accounted for 62,217M yen (2.7% increase from previous FY, 3Q,) Media Integration (MI) accounted for 10,700M yen (104.0 % increase from previous FY, 3Q) and Service Integration (SI) accounted for 16,284M yen (15.5% increase from previous FY 3Q.) With regard to profit, as a result of decrease in sales cost ratio and ratio of selling, general and administrative expense, operating profit was 6,556M yen (34.9% increase from previous FY 3Q) and ordinary profit was 6,530M yen (34.2% increase from previous FY 3Q.) Current net income was 3,561M yen (30.8% increase from previous FY 3Q.)

Changes in Financial Status (Consolidated)

With regard to current quarter assets, there was a total increase of 5,400M yen in comparison to previous FY 3Q and this is attributable to factors including 12,057M yen increase in cash and deposits and securities (negotiable deposit) relative to recovery of account receivables, etc., 3,069M yen decrease in note receivables and account receivables, and 3,264M yen decrease in inventories.

With regard to liabilities, there was a total decrease of 1,443M yen and this is attributable to factors including 4,792M yen decrease in short term debt and 3,252M yen increase in account payable.

Current quarter's cash flow from operation increased by 21,575M yen in income compared to previous FY 3Q and there was an 11,425M yen in income; significant attributable factors for this included 5,228M yen increase in income from recovery of account receivables and 5,834M yen increase in income from decrease in inventories and 10,586M yen decrease in expenditure from decrease in payment of purchase liabilities. For cash flow based on investing activities, expenditure decreased by 1,321M yen compared to the previous FY 3Q, and there was 1,603M yen in expenditure; significant attributable factors for this included 858M yen decrease in expenditure from acquisition of tangible and intangible fixed assets.

For cash flow based on financing activities, there was 5,325M yen decrease in income compared to previous FY 3Q and recorded 273M yen in expenditure; significant attributable factors included previous FY 3Q's 5,142M yen income from short term loan that did not take place in current FY 3Q.

Revisions to Consolidated and Non-Consolidated FY2004 Forecasts

With regard to forecast for current FY 4Q (January to March 2005,) private sector is expected to continue to be cautious in making facility investments and significant investment for next generation web by telecommunication businesses is not expected until next FY. In addition, most business opportunities require some time from winning orders to recording sales.

Under this environment, through considering business in current FY 4Q based on backlog of unfilled orders at the end of current FY 3Q, the consolidated and non-consolidated forecasts for FY2004 (April 1, 2004 to March 31, 2005) announced on May 11, 2004 shall be revised as follows.

<Consolidated Report>

(unit: million yen)

	Sales	Ordinary Profit	Net Income
Revised Forecast	134,000	10,000	5,600
Previous Forecast (B)	146,000	13,000	7,200
Change (A-B)	(12,000)	(3,000)	(1,600)
Percentage of Change (A-B)/(B)	(8.2%)	(23.1%)	(22.2%)
Previous FY Actual Results	121,637	10,608	6,093

< Non-Consolidated >

(unit: million yen)

	Sales	Ordinary Profit	Net Income
Revised Forecast	132,000	9,000	5,000
Previous Forecast (B)	142,000	12,350	7,000
Change (A-B)	(10,000)	(3,350)	(2,000)
Percentage of Change (A-B)/(B)	(7.0%)	(27.1%)	(28.6%)
Previous FY Actual Results	119,287	10,234	6,089

(Note) The above business forecast is based on conditions our company currently determines to be reasonable and may vary significantly from the actual business results. Factors that may significantly affect the actual business results include, but are not limited to 1) changes in economic conditions and market demand surrounding our company, and 2) sharp fluctuation in currency exchange rate.

Consolidated Financial Statements

(1) Consolidated Balance Sheets

(unit: rounded down to the nearest million yen)

	End of Current FY 3Q (as of Dec. 31, 2004)		End of Previous FY 3Q (as of Dec. 31, 2003)		Variance		End of Previous FY (as of Mar.31, 2004)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
ASSETS		%		%		%		%
Current Assets	63,919	86.4	58,148	84.8	5,770	9.9	63,662	85.9
Cash and Deposits	9,209		1,151		8,057	699.9	3,661	
Note Receivables and Account Receivables	33,898		36,967		(3,069)	(8.3)	43,168	
Securities	4,000		-		4,000	-	-	
Inventories	15,066		18,331		(3,264)	(17.8)	15,714	
Deferred Income Taxes	395		498		(102)	(20.6)	632	
Others	1,441		1,316		124	9.5	625	
Allowance for doubtful Receivables	(91)		(116)		24	(21.4)	(138)	
Fixed Assets	10,038	13.6	10,408	15.2	(369)	(3.6)	10,445	14.1
1. Tangible Fixed Assets	4,662	6.3	4,725	6.9	(62)	(1.3)	4,943	6.7
Tools, Fixtures and Equipment	4,209		4,207		2	0.1	4,473	
Others	453		517		(64)	(12.5)	470	
2. Intangible Fixed Assets	1,676	2.3	1,600	2.3	75	4.7	1,683	2.3
3. Investments and Other Assets	3,699	5.0	4,082	6.0	(383)	(9.4)	3,818	5.1
Investment Securities	605		1,654		(1,049)	(63.4)	980	
Deferred Income Tax	2,096		1,656		440	26.6	2,063	
Others	1,231		1,017		213	20.9	1,020	
Allowance for Doubtful Receivables	(233)		(246)		12	(5.2)	(246)	
Total Assets	73,957	100.0	68,556	100.0	5,400	7.9	74,108	100.0
LIABILITIES								
Current Liabilities	17,834	24.1	18,972	27.7	(1,138)	(6.0)	21,003	28.3
Account Payable	12,959		9,707		3,252	33.5	13,766	
Short Term Debt	350		5,142		(4,792)	(93.2)	350	
Miscellaneous Account	454		712		(257)	(36.1)	830	
Accrued Corporation Tax	346		48		297	610.1	3,066	
Allowance for Bonuses	320		366		(45)	(12.5)	538	
Others	3,403		2,995		407	13.6	2,451	
Fixed Liabilities	329	0.5	634	0.9	(305)	(48.1)	718	1.0
Long Term Miscellaneous Account	170		-		170	-	-	
Allowance for Retirement Benefits	120		438		(318)	(72.6)	513	
Allowance for Bonus for Retiring Directors	27		194		(166)	(85.7)	201	
Consolidation Adjustments Account	1		1		0	58.4	2	
Others	9		0		8	867.9	0	
Total Liabilities	18,164	24.6	19,607	28.6	(1,443)	(7.4)	21,721	29.3
MINORITY SHAREHOLDERS' EQUITY								
Minority Shareholders' Equity	447	0.6	239	0.3	207	86.5	261	0.4
SHAREHOLDERS' EQUITY								
Capital Stock	12,279	16.6	12,278	17.9	0	0.0	12,278	16.6
Additional Paid-in Capital	19,453	26.3	19,452	28.4	0	0.0	19,452	26.2
Earned Surplus	23,716	32.0	17,112	25.0	6,603	38.6	20,482	27.6
Difference from Securities Revaluation	(8)	(0.0)	(40)	(0.1)	31	(78.0)	5	0.0
Repurchased Stock	(94)	(0.1)	(94)	(0.1)	-	-	(94)	- 0.1
Total Shareholders' Equity	55,346	74.8	48,709	71.1	6,637	13.6	52,125	70.3
Total Liabilities, Minority Shareholders' Equity, Shareholders' Equity	73,957	100.0	68,556	100.0	5,400	7.9	74,108	100.0

(2) Consolidated Income Statements

(unit: rounded down to the nearest million yen)

	Current FY 3Q Apr. 1, 2004 to Dec. 31, 2004		Previous FY 3Q Apr. 1, 2003 to Dec. 31, 2003		Variance		Previous FY Apr. 1, 2003 to Mar. 31, 2004	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
		%		%		%		%
Sales	89,201	100.0	79,923	100.0	9,278	11.6	121,637	100.0
Cost of Goods Sold	71,767	80.5	64,926	81.2	6,840	10.5	97,709	80.3
Gross Profit on Sales	17,434	19.5	14,997	18.8	2,437	16.3	23,928	19.7
Selling, General and Administrative Expense	10,877	12.2	10,136	12.7	741	7.3	13,319	11.0
Operating Profit	6,556	7.3	4,860	6.1	1,696	34.9	10,608	8.7
Non-Operating Income	16	0.0	41	0.0	(24)	(59.8)	44	0.0
Interest Income	3		1		1	145.6	1	
Dividends	0		1		(1)	(77.4)	1	
Depreciation Amount of Consolidation Adjustment Account	0		-		0	-	-	
Exchange Gains on Foreign Currencies	1		14		(12)	(90.3)	8	
Dividend on Group Insurance	1		15		(14)	(88.9)	15	
Sales Incentives	-		-		-	-	8	
Others	9		8		0	8.9	8	
Non-Operating Expenses	42	0.0	36	0.0	6	17.5	44	0.0
Dividends	3		4		(0)	(12.6)	8	
Investment Loss on Equity Method	7		7		(0)	(5.5)	5	
Issuing New Shares Expense	13		-		13	-	2	
Commitment Fee	7		7		0	3.9	9	
Operational Spending Loss	7		7		0	7.6	11	
Others	3		10		(7)	(71.1)	7	
Ordinary Profit	6,530	7.3	4,865	6.1	1,665	34.2	10,608	8.7
Extraordinary Profit	310	0.3	3	0.0	306	8,117.6	821	0.7
Reversal for Allowance for Doubtful Receivables	47		1		45	2,709.7	1	
Gain on Sales of Investment Securities	123		2		121	5,771.7	673	
Gain on Exchange of Investment Securities	-		-		-	-	146	
Gain on Termination of Approved Retirement Annuity System	137		-		137	-	-	
Others	2		-		2	-	-	
Extraordinary Loss	467	0.5	45	0.1	421	920.9	699	0.6
Loss from Removal of Fixed Assets	6		45		(39)	(85.2)	177	
Loss from Sales of Fixed Assets	25		-		25	-	-	
Loss on revaluation of investment securities	220		-		220	-	505	
Loss from Termination of Welfare Facility Contract	-		-		-	-	8	
Termination of Retirement Benefits System for Executives	69		-		69	-	-	
Transfer to Allowance for Retirement Benefits	63		-		63	-	-	
Others	82		-		82	-	6	
Income before Taxes	6,373	7.1	4,823	6.0	1,549	32.1	10,731	8.8

Taxes	2,623	2.9	2,059	2.6	564	27.4	4,576	3.7
Gain from Minority Shareholders	187	0.2	40	0.0	147	367.6	61	0.1
Net Income	3,561	4.0	2,723	3.4	838	30.8	6,093	5.0

(3) Consolidated Statements of Cash Flow

(unit: rounded down to the nearest million yen)

	Current FY 3Q Apr. 1, 2004 to Dec. 31, 2004	Previous FY 3Q Apr. 1, 2003 to Dec. 31, 2003	Previous FY Apr. 1, 2003 to Mar. 31, 2004
	Amount	Amount	Amount
Operating Activities			
Current net income before tax	6,373	4,823	10,731
Depreciation expense	1,845	1,813	2,556
Depreciation amount for consolidation adjustment account	(0)	3	4
Change in allowance for employee retirement benefits	(393)	175	250
Change in allowance bonus for retiring directors	(173)	5	12
Change in allowance for bonus	(218)	(95)	77
Change in allowance for doubtful receivables	(59)	9	31
Interest received and dividends received	(3)	(2)	(3)
Investment loss on equity method	7	7	5
Interest payment	3	4	8
Gain from sales of investment securities	(123)	(2)	(673)
Gain from exchange of investment securities	-	-	(146)
Loss from sales of investment securities	25	-	-
Loss from revaluation of investment securities	220	-	505
Change in account receivables	10,433	5,205	(1,363)
Change in inventories	749	(5,085)	(2,467)
Change in accrued consumption tax	0	(112)	48
Increase in other current assets	(376)	(269)	(179)
Decrease in purchase liabilities	(841)	(11,427)	(7,357)
Change in unpaid consumption tax	(254)	(21)	239
Decrease in other current liabilities	(208)	(117)	(112)
Payment for executives' bonuses	(53)	(45)	(45)
Others	79	96	245
Sub-total	17,030	(5,034)	2,369
Amount received for interests and dividends	3	3	3
Amount paid for interest	(3)	(4)	(8)
Amount paid for corporation tax	(5,599)	(5,135)	(5,208)
Others	(5)	20	29
Operation Activities	11,425	(10,150)	(2,814)
Investing Activities:			
Expenditure from loan on short term loan	(0)	-	-
Income from recovery of short term loan	-	-	0
Expenditure from acquisition of tangible fixed assets	(1,602)	(1,905)	(2,897)
Expenditure from acquisition of intangible fixed assets	(238)	(794)	(885)
Expenditure from acquisition of investment securities	-	(213)	(213)
Income from sell-off of investment securities	217	5	1,069
Expenditure from loan on long term loan	(5)	(23)	(34)
Income from recovery of long term loan	6	3	5
Expenditure from payment of initial investment	(17)	(17)	(19)
Income from recovery of initial investment	4	2	2
Others	32	18	17
Investing Activities	(1,603)	(2,925)	(2,956)
Financing Activities			
Income from short term debt	-	5,142	350
Expenditure from redemption of short term debts payable	-	(110)	(110)
Income from issuing corporate shares	1	292	290
Payment of dividends	(275)	(272)	(272)
Financing Activities	(273)	5,052	257
Amount of change in cash and cash equivalents	9,548	(8,023)	(5,513)
Beginning balance of cash and cash equivalents	3,661	9,174	9,174
Ending balance of cash and cash equivalents	13,209	1,151	3,661

As Net One Systems Group segment information is unitary, sales, amount of orders accepted, and backlog of unfilled orders are indicated by their product category.

Sales by Product Category

(unit: rounded down to nearest million yen)

	Current FY 3Q April 1, 2004 to December 31, 2004		Previous FY 3Q April 1, 2003 to December 31, 2003		Previous FY April 1, 2003 to Mar. 31, 2004	
	Amount	Ratio	Amount	Amount	Amount	Ratio
Network Integration Products	61,004	68.4	59,796	74.8	90,767	74.6
Network Computing Products	1,212	1.4	785	1.0	2,157	1.8
Media Integration Products	10,700	12.0	5,244	6.6	7,216	5.9
Service Integration Products	16,284	18.2	14,097	17.6	21,496	17.7
Total	89,201	100.0	79,923	100.0	121,637	100.0

Orders Accepted by Product Category

(unit: rounded down to nearest million yen)

	Current FY 3Q April 1, 2004 to December 31, 2004		Previous FY 3Q April 1, 2003 to December 31, 2003		Previous FY April 1, 2003 to Mar. 31, 2004	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Network Integration Products	66,343	66.3	67,717	77.1	89,905	72.5
Network Computing Products	1,276	1.3	939	1.1	2,350	1.9
Media Integration Products	17,451	17.4	5,276	6.0	7,471	6.0
Service Integration Products	15,017	15.0	13,938	15.8	24,313	19.6
Total	100,088	100.0	87,871	100.0	124,041	100.0

Backlog of Unfilled Orders by Product Category

(unit: rounded down to nearest million yen)

	End of current FY 3Q (as of December 31, 2004)		End of previous FY 3Q (as of December 31, 2003)		End of previous FY (as of Mar. 31, 2004)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Network Integration Products	24,098	49.9	27,407	63.8	18,759	50.2
Network Computing Products	923	1.9	819	1.9	858	2.3
Media Integration Products	9,068	18.8	2,093	4.9	2,317	6.2
Service Integration Products	14,179	29.4	12,615	29.4	15,447	41.3
Total	48,269	100.0	42,936	100.0	37,382	100.0