



Financial Report for FY 2004 (ending March 2005) (Non-Consolidated Report)

May 11, 2005

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: President & CEO

Osamu Sawada

Inquiries: Director, Manager of Operation Department Tadashi Arima

Telephone (03)5462-0800

Date of Board Meeting for FY ending March 2005: May 11, 2005

Provide interim dividend: Yes

Date of General Meeting of Shareholders: June 24, 2005

Scheduled commencement date of dividend: June 27, 2005

Availability of single unit share system: No

1. Results of FY ended March 31, 2005 (April 1, 2004 to March 31, 2005)

(1) Financial Results

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

	Sales		Operating Profit		Ordinary Profit	
	Million yen	%	Million yen	%	Million yen	%
Year ended March 2005	132,235	(10.9)	9,667	(- 5.1)	9,681	(- 5.4)
Year ended March 2004	119,287	(28.4)	10,187	(37.0)	10,234	(35.8)

	Net Income		Net Income per share		Net Income per share (assuming full dilution)	Return on Stockholder s' equity ratio	Ordinary profit ratio of total capital	Ordinary profit ratio of sales	
	Million yen	%	Yen	Sen					Yen
Year ended March 2005	5,677	(6.8)	10,219	90	—	10.4	12.9	7.3	
Year ended March 2004	6,089	(38.9)	21,930	41	21,910	36	12.4	14.0	8.6

Note:

Average number of securities during the FY

Year ended Mar. 2005 551,687shares

Year ended Mar. 2004 275,479shares

Changes in principal accounting policies: no

Percentage: Increase/Decrease against previous FY sales, operating profit, ordinary profit and net income

(2) Dividend Status

	Annual dividend per share			Total dividend (Annual)	Dividend Payout Ratio	Dividend ratio for shareholder's equity			
	Interim period		FY						
	Yen	sen	Yen	sen	Million yen	%	%		
Year ended March 2005	1,000	00	0	00	1,000	00	551	9.8	1.0
Year ended March 2004	1,000	00	0	00	1,000	00	275	4.6	0.5

(3) Financial Position

	Total Assets	Shareholder's equity	Shareholder's equity ratio to total assets	Shareholder's equity per share	
	Million yen	Million yen	%	Yen	sen
Year ended March 2005	77,790	57,499	73.9	104,154	49
Year ended March 2004	72,718	52,158	71.7	188,915	59

(Note)

Number of outstanding stocks at the end of the FY

Year ended Mar. 2005 551,688shares

Year ended Mar. 2004 275,842shares

Number of corporate shares at the end of FY

Year ended Mar. 2005 211 shares

Year ended Mar. 2004 105 shares

2. Forecast for the FY ending March 2005 (April 1, 2005 to March 31, 2006)

	Sales	Ordinary Profit	Ordinary Net Income	Annual dividend per share			
				Interim	End of Term		
	Million yen	Million yen	Million yen	Yen	Sen	Yen	Sen
Interim period	58,000	4,000	2,200	750	00	—	—
Fiscal Year	145,000	12,000	6,800	—	—	750	00
							1,500

(Reference) Forecast net income per share for FY 12,325.81 Yen

(Note) The above forecast is based on currently available information and the actual business performance may vary due to multiple factors. With regards to particulars related to above forecast, please refer to Consolidated Report, Operating Results and Financial Status (d) Forecast for the next term Operating Results on page 15 of attached document.

Reference information regarding current period net income per share, current period net income per share assuming full dilution, annual dividend per share and shareholders' equity per share

On May 20, 2004, the Company provided 2 share 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 April 1, 2004 to March 31, 2005		Previous FY April 1, 2003 to March 31, 2004	
	Yen	Sen	Yen	Sen
Current FY net income per share	10,219	90	10,965	21
Current net income per share assuming full dilution	—————		10,955	18
Annual dividend per share	1,000	00	500	00
Shareholders' equity per share	104,154	49	94,457	80

(Note) With regard to current FY period net income per share assuming full dilution, no figures are indicated because there were no diluted shares.

Comparative balance sheet

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

	End of previous FY (as of March 31, 2004)		End of current FY (as of March 31, 2005)		Variance
	Amount	Ratio	Amount	Ratio	
ASSETS		%		%	
Current assets	64,721	89.0	68,807	88.5	4,086
Cash and deposits	2,701		10,652		7,951
Note receivable	1,118		622		(495)
Account receivable	41,789		35,906		(5,883)
Securities	-		6,999		6,999
Commercial goods	12,588		8,543		(4,045)
Goods in transit	2,099		1,690		(409)
Uncompleted works	878		956		78
Inventory goods	3		4		0
Advance payment	17		3		(13)
Prepaid expense	489		840		351
Deferred income taxes	544		521		(22)
Short term loans	2,354		2,157		(196)
Others	279		313		33
Allowance for doubtful receivables	(144)		(406)		(262)
Fixed assets	7,997	11.0	8,982	11.5	984
Tangible fixed assets	2,951	4.1	3,400	4.4	449
Buildings	271		223		(48)
Structures	1		0		(0)
Tools, fixtures and equipment	2,463		2,962		498
Land	211		211		-
Lease assets	3		2		(0)
Intangible fixed assets	1,482	2.0	1,575	2.0	92
Software	1,482		1,575		92
Investment and other assets	3,564	4.9	4,006	5.1	442
Investment securities	876		239		(636)
Stocks of affiliated companies	641		1,572		931
Investment in capital	52		68		15
Long term loans to employees	58		31		(27)
Receivables from insolvent companies	246		233		(12)
Long term prepaid expense	5		254		248
Deferred income tax assets	1,292		1,179		(112)
Security deposit amount	547		644		96
Others	89		17		(72)
Allowance for doubtful receivables	(246)		(234)		12
Total assets	72,718	100.0	77,790	100.0	5,071

Comparative balance sheet

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

	Previous FY (as of May 31, 2004)		Current FY (as of March 31, 2005)		Variance
	Amount	Ratio	Amount	Ratio	
LIABILITIES		%		%	
Current liabilities	19,917	27.4	20,124	25.9	207
Account payable	13,689		14,567		877
Miscellaneous account	698		937		238
Miscellaneous expenses	449		407		(41)
Accrued corporation tax, etc.	2,865		1,610		(1,255)
Accrued consumption taxes	266		340		74
Advances from customers	1,449		1,814		365
Deposit received	43		43		0
Allowance for bonuses	390		307		(83)
Others	65		96		31
Fixed liabilities	642	0.9	165	0.2	(476)
Long term account payable	-		165		165
Allowance for retirement benefits	469		-		(469)
Allowance for bonus for retiring executives	173		-		(173)
Others	0		-		(0)
Total liabilities	20,560	28.3	20,290	26.1	(269)
SHARHOLDERS' EQUITY					
Capital stock	12,278	16.9	12,279	15.8	0
Additional paid-in capital	19,452	26.7	19,453	25.0	0
Capital reserve	19,452		19,453		0
Retained earnings	20,516	28.2	25,869	33.2	5,353
Appropriated for legal reserve	85		85		-
Unappropriated reserve	14,062		19,547		5,485
Reserve for extraordinary depreciation of IT equipment	22		17		(4)
Other reserve	14,040		19,530		5,490
Unappropriated net income for the FY	6,368		6,236		(131)
Difference from securities revaluation	5	0.0	(8)	(0.0)	(14)
Treasury stock	(94)	(0.1)	(94)	(0.1)	-
Total shareholders' equity	52,158	71.7	57,499	73.9	5,340
Total liabilities, shareholders' equity	72,718	100.0	77,790	100.0	5,071

Comparative Income Statement

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

	Previous FY April 1, 2003 to March 31, 2004		Current FY April 1, 2004 to March 31, 2005		Variance
	Amount	Ratio	Amount	Ratio	
Sales	119,287	100.0	132,235	100.0	12,948
Cost of goods sold	97,301	81.6	109,541	82.8	12,239
Gross profit on sales	21,985	18.4	22,694	17.2	709
Selling, general and administrative expense	11,798	9.9	13,027	9.9	1,228
Operating income	10,187	8.5	9,667	7.3	(519)
Non-operating income	81	0.1	56	0.0	(24)
Interest income	15		17		2
Interest on securities	-		0		0
Dividends	1		0		(1)
Service fee from affiliated companies	21		21		0
Exchange gain on foreign currencies	8		-		(8)
Dividend on group insurance	14		1		(13)
Sales incentives	10		-		(10)
Others	8		14		6
Non-operating expense	33	0.0	42	0.0	8
Interest expense	3		-		(3)
Issuing new shares expense	2		13		11
Exchange loss on foreign currencies	-		11		11
Commitment fee	9		9		0
Operational spending loss	11		4		(6)
Previous year consumption tax, etc.	4		-		(4)
Others	2		2		(0)
Ordinary profit	10,234	8.6	9,681	7.3	(552)
Extraordinary profit	821	0.7	1,223	0.9	401
Reversal of allowance for doubtful receivables	1		38		36
Gain on sales of investment securities	673		1,047		373
Gain on exchange of investment securities	146		-		(146)
Gain on termination of approved retirement annuity system	-		137		137
Extraordinary loss	644	0.6	1,330	1.0	685
Loss from removal of fixed assets	126		21		(104)
Loss from sales of investment securities	-		106		106
Loss from revaluation of investment securities	505		168		(337)
Affiliated company reorganization loss	-		430		430
Loss from disposal of inventories	-		421		421
Loss from termination of welfare facility contract	8		-		(8)
Additional service fee relative to termination of allowance for retirement benefit for executives	-		69		69
Others	4		113		108
Current income before taxes	10,411	8.7	9,574	7.2	(837)

Income taxes current	4,796	4.0	3,752	2.8	(1,044)
Income taxes deferred	(474)	(0.4)	144	0.1	619
Current net profit	6,089	5.1	5,677	4.3	(412)
Retained earnings at the beginning of the period	278		559		280
Unappropriated net profit for the FY	6,368		6,236		(131)

Comparison of plan for appropriation of earnings

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

\	FY ended March 2004	FY ended March 2005	Variance
Unappropriated net income for the FY	6,368	6,236	(131)
Appropriation of reserve for extraordinary depreciation of certain IT equipment	4	4	(0)
Total	6,373	6,241	(131)
The above items will be appropriated as indicated below.			
Dividends	275	551	275
Bonus to directors	48	39	(9)
Other reserve	5,490	5,080	(410)
Earned surplus carried forward to the following FY	559	570	11

Significant accounting policies

1. Valuation standard and valuation method for marketable securities

(1) Subsidiaries and affiliated companies

Cost accounting method using moving average method or amortized cost method (fixed amount method)

(2) 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 without market value

Cost accounting method using moving average method

2. Derivatives

Market value

3. Valuation standard and valuation method for inventories

(1) Merchandises

Cost accounting method using moving average method

(2) Uncompleted works

Cost accounting method using individual method

4. Accounting method for depreciation of fixed assets

(1) Tangible fixed assets

Fixed percentage method is applied, with an exception of lease assets which employs straight line method.

Significant asset lives are:

Building 3-26 years

Tools, fixtures and equipment 2-20 years

Lease asset 6 years

(2) Intangible fixed assets

Software for internal use

Straight line method based on corporate usability period (5 years)

Software for sale

Straight line method based on useful life (3 years)

(3) Long term prepaid expense

Average depreciation method

5. Accounting method for accrued assets

Expense relating to issuance of new stocks

When making the payment, all amount is accrued under expense

6. Exchange standard for foreign currency assets and liabilities

Account receivable and account payable in foreign currencies are converted to yen at spot exchange rate on FY closing date and exchange difference is processed as gain or loss.

7. Accounting method for accrual of allowance

(1) Allowance for doubtful receivables

To prepare for loss from uncollectible credits, allowance is made against ordinary assets using calculations based on historical uncollectible rate, and for special receivables with higher uncertainty, probability of collectivity is considered on individual cases and prospective uncollectible amount is accrued.

(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 Standard for Business Enterprises) has been applied.

The effect of this shift to the new plans created 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 FY 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 executives with their entitled retirement benefits based on the term of service until termination of retirement benefit system (as of the end of relevant general meeting of shareholders.)

As a result, retirement benefit for executives (including additional service fee) calculated based on applicable terms of service until the termination of retirement benefit system amounting to 165M yen was accrued as long-term miscellaneous account.

8. Accounting method for lease transactions

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

9. Hedge accounting method

(1) Hedge accounting method Carry over hedge accounting is applied, except for exchange contract when requirements for allocations procedures are met, allocation procedure is applied.

(2) Hedge procedure and subject Hedge procedure : Exchange contract
Subject to hedge : Planned foreign currency
transactions

(3) Hedge policy In accordance with limitation on transactions amount and transaction authority in corporate administrative provisions, risk hedge for currency fluctuation of foreign liabilities relating to business assets is applied.

(4) Hedge efficiency valuation policy For exchange contract which is considered to have high hedge efficiency, efficiency valuation has been omitted.

10 . Other significant items for creating financial statements

Accounting policy for consumption tax, etc.

Pre-tax method is applied for consumption tax and local consumption tax.

Change in classification method

(Matters related to income statement)

Sales incentives (current FY is 0M yen) which was independently classified until previous FY, was not over 10/100 of total non-operating income during current FY and it has been included under others in non-operating income.

Other remarks

(Matters related to balance sheet)

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

Previous FY (as of March 31, 2004)	Current FY (as of March 31, 2005)
(1) Total depreciation amount of tangible fixed assets 5,470	(1) Total depreciation amount of tangible fixed assets 6,012
(2) Significant assets and liabilities to related companies Account receivable 382 Short term loans 2,350 Account payable 1,578	(2) Significant assets and liabilities to related companies Account receivable 61 Short term loans 2,150 Account payable 1,442
(3) Overdraft agreement and loan commitment contract 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 <hr/> End balance 29,200	(3) Overdraft agreement and loan commitment contract 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 <hr/> End balance 29,200
(4) Number of authorized shares and total number of outstanding shares Number of authorized shares Common shares 400,000 Total number of outstanding shares Common shares 275,948 Dividend Program Net assets increased by 5M yen due to applying market value to assets indicated in Commercial Code Enforcement Regulation Chapter 124 Section 3.	(4) Number of authorized shares and total number of outstanding shares Number of authorized shares Common shares 800,000 Total number of outstanding shares Common shares 551,900 <hr/>

Increase/decrease in number of outstanding shares during current FY (April 1, 2004 to March 31, 2005)

1. Number of new shares issued due to exercise of stock options granted under the rules of Commercial Code Article 280-20 and 280-21, Paragraph 1.

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

2. Stock split dated May 20, 2004 (2.0 shares for 1 share)

Number of shares issued	275,948 shares
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(Matters related to income statement)

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

Previous FY April 1, 2003 to March 31, 2004	Current FY April 1, 2004 to March 31, 2005
(1) Expenses and amounts for significant items under selling, general and administrative expenses	(1) Expenses and amounts for significant items under selling, general and administrative expenses
Compensation to executives 96	Compensation to executives 173
Allowance for compensation 4,882	Allowance for compensation 5,337
Bonus 565	Bonus 770
Allocation of allowance for bonus 364	Allocation of allowance for bonus 260
Allocation of allowance for employee retirement benefit 410	Allocation of allowance for employee retirement benefit 215
Allocation of allowance for retirement benefit for executives 17	Allocation of allowance for retirement benefit for executives 4
Allocation of allowance for doubtful receivables 60	Legal welfare expense 645
Legal welfare expense 686	Rental expense 1,278
Rental expense 1,176	Expense for depreciation 693
Expense for depreciation 667	
(2) Total research and development expense included in general administrative expense	(2) Total research and development expense included in general administrative expense
Research and development expense 1,599	Research and development expense 1,632
(3) Items under loss from removal of fixed assets	(3) Items under loss from removal of fixed assets
Tools, fixtures, and equipment 126	Buildings 4
	Tools, fixtures, and equipment 16
	Total 21
(4) Matters related to related companies	(4) Matters related to related companies
Interest received 14	Interest received 14
	(4) Matters related to related company reorganization loss
	ProStorage Co., Ltd.
	Allocation of allowance for doubtful receivables 300
	Related company stock evaluation loss 130
	Total 430

(Matters related to lease transactions)

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

(Matters related to securities)

During previous FY (March 31, 2004) and current FY (March 31, 2005) there were no securities with market value for subsidiaries and affiliated companies.

(Matters related to tax effect accounting)

1. Breakdown based on basis for accrual for deferred income tax assets and deferred income tax liabilities.

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

	Previous FY	Current FY
Deferred income tax assets (current)		
Related company reorganization loss	-	174
Business tax payable	264	126
Allowance for bonus	158	124
Others	120	95
Total deferred income tax assets (Current)	<u>544</u>	<u>521</u>
Deferred income tax assets (fixed)		
Allowance for or tools, fixtures, and equipment	486	529
Software fee	-	155
Allowance for doubtful receivables	77	59
Allowance for retirement benefits	191	-
Allowance for bonus for retiring executives	70	-
Outstanding retirement benefits for executives	-	67
Loss from revaluation of securities	378	354
Loss from revaluation of other securities	-	5
Others	103	15
Total deferred income tax assets (fixed)	<u>1,307</u>	<u>1,187</u>
Deferred income tax liabilities (fixed)		
Valuation difference for other securities	(4)	-
Reserve for extraordinary depreciation	(11)	(8)
Total deferred income tax liabilities (fixed)	<u>(15)</u>	<u>(8)</u>
Net deferred income tax assets (fixed)	<u>1,292</u>	<u>1,179</u>

2. Breakdown of significant items that lead to difference between contribution percentages in tax rates of statutory effective tax rate and corporation tax after applying tax effect accounting.

Previous FY	Current FY
As the difference between contribution percentages for statutory effective tax rate and corporation tax after applying tax effect accounting was not more than 5/100, explanatory note has been omitted.	Same as on the left

Change in directors (scheduled for June 24, 2005)

(1) Changes to CEO

Not applicable.

(2) Changes to other directors

Candidates for new directors

Director	Shingo Saito (currently General Manager of Enterprise Business Department)
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