



# Business Performance for 1<sup>st</sup> Quarter FY2005 (FY ending March 2006) (Consolidated Report)

August 5, 2005

Company Name **Net One Systems Co., Ltd.**

(Stock code number: 7518 Tokyo Stock Exchange)

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

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## 1. Matters related to preparation of Business Performance for 1<sup>st</sup> Quarter of FY2005

- 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. 2005 and current quarter: **Yes**  
 (Description) From current quarter, accounting standard and implementation guidance for impairment of fixed assets has been applied.  
 Relative to this, there was a decrease of 132M yen in income before income taxes.
- Changes in scope of consolidation and equity method : **Yes**  
 (Description) Consolidation: increase -, decrease 2 Equity method: increase -, decrease -

## 2. Results of FY2005 1<sup>st</sup> Quarter (April 1, 2005 to June 30, 2005)

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

	Sales		Operating profit		Ordinary profit	
	Million yen	%	Million yen	%	Million yen	%
Quarter ended June 30, 2005	21,829	(-19.4)	1,611	(-8.4)	1,606	(-7.2)
Quarter ended June 30, 2004	27,089	(19.1)	1,758	(75.6)	1,730	(72.0)
(Reference) Year ended March 2005	134,739		10,687		10,648	

	Quarterly net income		Net income per share		Net income per share (assuming full dilution)	
	Million yen	%	Yen	Sen	Yen	Sen
Quarter ended June 30, 2005	963	(3.3)	1,747	30	—	—
Quarter ended June 30, 2004	933	(75.4)	1,691	61	1,690	77
(Reference) Year ended March 2005	6,214		11,183	12	—	—

(Note) Percentage: increase/decrease against previous FY 1<sup>st</sup> 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	
	Million yen	Million yen	%	yen	sen
Quarter ended June 30, 2005	72,355	58,367	80.7	105,797	68
Quarter ended June 30, 2004	72,329	52,727	72.9	95,576	15
(Reference) Year ended March 2005	80,822	57,999	71.8	105,049	57

## (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)	
	Million yen	Million yen	Million yen	Million yen	
Quarter ended June 30, 2005	3,892	(700)	(434)	23,186	
Quarter ended June 30, 2004	6,283	(742)	(275)	8,927	
(Reference) Year ended March 2005	18,714	(1,708)	(238)	20,429	

## 3. Forecast for the FY2005 (April 1, 2005 to March 31, 2006)

	Sales	Ordinary profit	Current net income
	Million yen	Million yen	Million yen
Interim period	59,000	4,300	2,400
Fiscal year	147,000	13,000	7,200

(Reference) Forecast net income per share for FY 13,050.85

(Note) The above forecast is the forecast made on May 11, 2005 for announcement of previous FY financial statements. At this point, there are no changes to the forecast.

## Operating Results (Consolidated)

During the first quarter of current FY, there was an increasing demand for application linked network creations from large-scale private companies and depending on the industry sector, willingness to make capital investment is recovering. For public related works, there were some universities and research institutions that made facility investments and there were some businesses from selected local government. On the other hand, telecom industry is making facility investments subsequent to scrutinizing trends in private and public related sectors.

Under this environment, current first quarter (April 1, 2005 to June 30, 2005) business performance for orders accepted was 24,024M yen (27.8% decrease from previous FY 1Q) sales was 21,829M yen (19.4% decrease from previous FY 1Q) and end of the term backlog of unfilled orders was 31,211M yen (28.4% decrease from previous FY 1Q.) For sales based on Product Category, Network Integration Products and Network Computing Products (NI and NC) accounted for 14,675M yen (28.8% decrease from previous FY 1Q,) Media Integration (MI) accounted for 1,521M yen (3.5% decrease from previous FY 1Q) and Service Integration (SI) accounted for 5,632M yen (15.2% increase from previous FY 1Q.) With regard to profit, although the gross profit margin increased (current consolidated quarter was 25.5%, previous consolidated quarter was 19.9%, indicating 5.6% increase) as a result of increase in selling, general and administrative expense relative to increase in personnel, operating profit was 1,611M yen (8.4% decrease from previous FY 1Q) and ordinary profit was 166M yen (7.2% decrease from previous FY 1Q.) Current net income was 963M yen (3.3% increase from previous FY 1Q.)

## Changes in Financial Status (Consolidated)

With regard to current quarter assets, there was a total increase of 25M yen in comparison to previous FY 1Q and total assets ended at 72,355M yen. Significant attributable factors for this included 14,259M yen increase in cash and deposits and securities (negotiable deposit) relative to increase in recovery of account receivables, etc., 5,924M yen decrease in note receivables and account receivables and 8,296M yen decrease in inventories.

With regard to liabilities, due to 6,060M yen decrease in account payable, total liabilities decreased by 5,867M yen in comparison to previous FY 1Q and ended at 13,436M yen.

With regard to shareholders' equity, mainly due to 5,646M yen increase in earned surplus, total shareholders' equity increased by 5,639M yen in comparison to previous FY 1Q and ended at 58,367M yen.

Current quarter's cash flow from operating activities decreased by 2,391M yen compared to previous FY 1Q and there was an 3,892M yen in income; significant attributable factors for this included 7,069M yen increase in expenditure from increase in payment of purchase liabilities and 3,886M yen increase in income from decrease in inventories. Current quarter's cash flow from investing activities decreased by 41M yen in expenditure compared to previous FY 1Q and 700M yen was recorded as expense. Current quarter's cash flow from financing activities increased by 158M yen in expenditure compared to previous FY 1Q relative to increase in payment of dividends from stock split and ended at 434M yen in expenditure.

## Business Performance Forecast (Consolidated)

Although large-scale private industries indicated declining businesses in the latter half of previous FY, depending on the industry sector, some companies showed increased demand for network recreations and enhancements. In addition, willingness by universities and research institutions to make facility investments was on a rise and local government related businesses relating to network creation are materializing. Relative to these demands, telecom companies are expected to continue facility investments while closely assessing the demand trends of ADSL and FTTH subscribers.

Under this environment, with regard to consolidated forecast for FY ending 2006 (April 1, 2005 to March 31, 2006,) expected sales, ordinary profit and current net income are 147,000M yen, 13,000M yen and 7,200M yen respectively.

(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 1Q (as of Jun. 30, 2005)		End of previous FY 1Q (as of Jun. 30, 2004)		Variance		End of previous FY (as of Mar. 31, 2005)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>ASSETS</b>		%		%		%		%
<b>Current assets</b>	<b>61,998</b>	<b>85.7</b>	<b>61,643</b>	<b>85.2</b>	<b>354</b>	<b>0.6</b>	<b>70,202</b>	<b>86.9</b>
Cash and deposits	14,187		8,927		5,259	58.9	13,429	
Note receivables and account receivables	26,841		32,765		(5,924)	(18.1)	37,073	
Securities	8,999		-		8,999	-	6,999	
Inventories	10,026		18,322		(8,296)	(45.3)	11,303	
Deferred income taxes	593		632		(38)	(6.1)	472	
Others	1,423		1,084		338	31.2	1,023	
Allowance for doubtful receivables	(73)		(89)		16	(18.1)	(100)	
<b>Fixed assets</b>	<b>10,356</b>	<b>14.3</b>	<b>10,686</b>	<b>14.8</b>	<b>(329)</b>	<b>(3.1)</b>	<b>10,619</b>	<b>13.1</b>
<b>1 . Tangible fixed assets</b>	<b>4,981</b>	<b>6.9</b>	<b>4,868</b>	<b>6.7</b>	<b>112</b>	<b>2.3</b>	<b>5,254</b>	<b>6.5</b>
Tools, fixtures and equipment	4,592		4,409		183	4.2	4,822	
Others	388		459		(70)	(15.4)	432	
<b>2 . Intangible fixed assets</b>	<b>1,764</b>	<b>2.4</b>	<b>1,702</b>	<b>2.4</b>	<b>62</b>	<b>3.7</b>	<b>1,818</b>	<b>2.2</b>
Consolidated adjustments account	20		-		20	-	21	
Others	1,743		1,702		41	2.4	1,797	
<b>3 . Investments and other assets</b>	<b>3,611</b>	<b>5.0</b>	<b>4,115</b>	<b>5.7</b>	<b>(504)</b>	<b>(12.3)</b>	<b>3,546</b>	<b>4.4</b>
Investment securities	349		962		(613)	(63.7)	334	
Deferred income tax	2,141		2,056		85	4.2	2,147	
Others	1,354		1,343		11	0.9	1,299	
Allowance for doubtful receivable	(234)		(246)		11	(4.8)	(234)	
<b>Total assets</b>	<b>72,355</b>	<b>100.0</b>	<b>72,329</b>	<b>100.0</b>	<b>25</b>	<b>0.0</b>	<b>80,822</b>	<b>100.0</b>
<b>LIABILITIES</b>								
<b>Current liabilities</b>	<b>13,221</b>	<b>18.3</b>	<b>18,463</b>	<b>25.5</b>	<b>(5,241)</b>	<b>(28.4)</b>	<b>22,099</b>	<b>27.3</b>
Account payable	6,983		13,043		(6,060)	(46.5)	14,795	
Short term debt	350		350		-	-	350	
Miscellaneous account	799		658		140	21.4	1,032	
Accrued corporation tax	694		883		(189)	(21.4)	1,995	
Allowance for bonuses	374		319		54	17.2	494	
Others	4,019		3,207		811	25.3	3,431	
<b>Fixed Liabilities</b>	<b>214</b>	<b>0.3</b>	<b>840</b>	<b>1.2</b>	<b>(625)</b>	<b>(74.4)</b>	<b>210</b>	<b>0.3</b>
Long term miscellaneous account	202		251		(49)	(19.7)	202	
Allowance for retirement benefits	-		556		(556)	(100.0)	-	
Allowance for bonus for retiring directors	-		23		(23)	(100.0)	-	
Consolidated adjustments account	-		2		(2)	(100.0)	-	
Others	12		6		6	102.4	8	
<b>Total liabilities</b>	<b>13,436</b>	<b>18.6</b>	<b>19,303</b>	<b>26.7</b>	<b>(5,867)</b>	<b>(30.4)</b>	<b>22,309</b>	<b>27.6</b>
<b>MINORITY SHAREHOLDERS' EQUITY</b>								
<b>Minority shareholders' equity</b>	<b>551</b>	<b>0.7</b>	<b>298</b>	<b>0.4</b>	<b>253</b>	<b>84.9</b>	<b>513</b>	<b>0.6</b>
<b>SHAREHOLDERS' EQUITY</b>								
<b>Capital stock</b>	<b>12,279</b>	<b>17.0</b>	<b>12,278</b>	<b>17.0</b>	<b>0</b>	<b>0.0</b>	<b>12,279</b>	<b>15.2</b>
<b>Additional paid-in capital</b>	<b>19,453</b>	<b>26.9</b>	<b>19,452</b>	<b>26.9</b>	<b>0</b>	<b>0.0</b>	<b>19,453</b>	<b>24.1</b>
<b>Earned surplus</b>	<b>26,734</b>	<b>36.9</b>	<b>21,087</b>	<b>29.1</b>	<b>5,646</b>	<b>26.8</b>	<b>26,368</b>	<b>32.6</b>
<b>Difference from securities revaluation</b>	<b>(5)</b>	<b>(0.0)</b>	<b>3</b>	<b>0.0</b>	<b>(8)</b>	<b>-</b>	<b>(8)</b>	<b>(0.0)</b>
<b>Repurchased stock</b>	<b>(94)</b>	<b>(0.1)</b>	<b>(94)</b>	<b>(0.1)</b>	<b>-</b>	<b>-</b>	<b>(94)</b>	<b>(0.1)</b>
<b>Total shareholders' equity</b>	<b>58,367</b>	<b>80.7</b>	<b>52,727</b>	<b>72.9</b>	<b>5,639</b>	<b>10.7</b>	<b>57,999</b>	<b>71.8</b>
<b>Total liabilities, minority shareholders' equity, shareholders' equity</b>	<b>72,355</b>	<b>100.0</b>	<b>72,329</b>	<b>100.0</b>	<b>25</b>	<b>0.0</b>	<b>80,822</b>	<b>100.0</b>

## (2) Consolidated income statements

(unit: rounded down to the nearest million yen)

	Current FY 1Q Apr. 1, 2005 to Jun. 30, 2005		Previous FY 1Q Apr. 1, 2004 to Jun. 30, 2004		Variance		Previous FY Apr. 1, 2004 to Mar. 31, 2005	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>Sales</b>	<b>21,829</b>	<b>100.0</b>	<b>27,089</b>	<b>100.0</b>	<b>(5,259)</b>	<b>(19.4)</b>	<b>134,739</b>	<b>100.0</b>
<b>Cost of goods sold</b>	<b>16,253</b>	<b>74.5</b>	<b>21,688</b>	<b>80.1</b>	<b>(5,435)</b>	<b>(25.1)</b>	<b>109,355</b>	<b>81.2</b>
<b>Gross profit on sales</b>	<b>5,576</b>	<b>25.5</b>	<b>5,400</b>	<b>19.9</b>	<b>175</b>	<b>3.3</b>	<b>25,384</b>	<b>18.8</b>
<b>Selling, general and administrative expenses</b>	<b>3,965</b>	<b>18.1</b>	<b>3,641</b>	<b>13.4</b>	<b>323</b>	<b>8.9</b>	<b>14,697</b>	<b>10.9</b>
<b>Operating profit</b>	<b>1,611</b>	<b>7.4</b>	<b>1,758</b>	<b>6.5</b>	<b>(147)</b>	<b>(8.4)</b>	<b>10,687</b>	<b>7.9</b>
<b>Non-operating income</b>	<b>15</b>	<b>0.1</b>	<b>4</b>	<b>0.0</b>	<b>10</b>	<b>241.4</b>	<b>21</b>	<b>0.0</b>
Interest income	1		1		0	8.2	3	
Dividends	1		-		1	-	0	
Depreciation amount of consolidation adjustment account	-		0		(0)	(100.0)	0	
Exchange gains on foreign currencies	5		-		5	-	-	
Dividend on group insurance	-		-		-	-	3	
Others	7		3		4	135.9	13	
<b>Non-operating expenses</b>	<b>19</b>	<b>0.1</b>	<b>32</b>	<b>0.1</b>	<b>(12)</b>	<b>(38.9)</b>	<b>61</b>	<b>0.0</b>
Dividends	1		1		-	-	4	
Investment loss on equity method	9		8		0	10.7	9	
Issuing new shares expense	-		13		(13)	(100.0)	17	
Exchange loss on foreign currencies	-		2		(2)	(100.0)	11	
Commitment fee	2		2		(0)	(5.0)	9	
Operational spending loss	0		3		(2)	(67.8)	4	
Others	6		1		4	394.8	3	
<b>Ordinary profit</b>	<b>1,606</b>	<b>7.4</b>	<b>1,730</b>	<b>6.4</b>	<b>(124)</b>	<b>(7.2)</b>	<b>10,648</b>	<b>7.9</b>
<b>Extraordinary profit</b>	<b>27</b>	<b>0.1</b>	<b>49</b>	<b>0.2</b>	<b>(21)</b>	<b>(44.1)</b>	<b>1,225</b>	<b>0.9</b>
Reversal for allowance for doubtful receivables	27		49		(22)	(45.0)	38	
Gain on sales of investment securities	0		-		0	-	1,047	
Gain on termination of approved retirement annuity system	-		-		-	-	137	
Others	-		-		-	-	2	
<b>Extraordinary loss</b>	<b>134</b>	<b>0.6</b>	<b>90</b>	<b>0.4</b>	<b>43</b>	<b>48.4</b>	<b>1,034</b>	<b>0.8</b>
Loss from removal of fixed assets	2		0		1	680.4	27	
Impairment loss	132		-		132	-	-	
Loss from sales of investment securities	-		-		-	-	106	
Loss from revaluation of investment securities	-		-		-	-	168	
Loss from disposal of inventories	-		-		-	-	421	
Termination of retirement benefits system for executives	-		66		(66)	(100.0)	77	
Retirement allowance plan adjustment fee	-		-		-	-	118	
Others	-		23		(23)	(100.0)	113	
<b>Income before taxes</b>	<b>1,500</b>	<b>6.9</b>	<b>1,690</b>	<b>6.2</b>	<b>(189)</b>	<b>(11.2)</b>	<b>10,839</b>	<b>8.0</b>
<b>Taxes</b>	<b>495</b>	<b>2.3</b>	<b>718</b>	<b>2.7</b>	<b>(223)</b>	<b>(31.0)</b>	<b>4,435</b>	<b>3.3</b>

<b>Gain from minority shareholders</b>	<b>40</b>	<b>0.2</b>	<b>38</b>	<b>0.1</b>	<b>2</b>	<b>6.7</b>	<b>190</b>	<b>0.1</b>
<b>Net income</b>	<b>963</b>	<b>4.4</b>	<b>933</b>	<b>3.4</b>	<b>30</b>	<b>3.3</b>	<b>6,214</b>	<b>4.6</b>

## (3) Consolidated statements of cash flow

(unit: rounded down to the nearest million yen)

	Current FY 1Q Apr. 1, 2005 to Jun. 30, 2005	Previous FY 1Q Apr. 1, 2004 to Jun. 30, 2004	Previous FY Apr. 1, 2004 to Mar. 31, 2005
	Amount	Amount	Amount
<b>Operating activities:</b>			
Current net income before tax	1,500	1,690	10,839
Depreciation expense	583	549	2,569
Impairment loss	132	-	-
Depreciation amount for consolidation adjustment account	1	(0)	(0)
Change in allowance for employee retirement benefits	-	43	(513)
Decrease in allowance bonus for retiring directors	-	(177)	(201)
Decrease in allowance for bonus	(119)	(219)	(44)
Decrease in allowance for doubtful receivables	(27)	(49)	(50)
Interest received and dividends received	(2)	(1)	(4)
Investment loss on equity method	9	8	9
Interest payment	1	1	4
Gain from sales of investment securities	(0)	-	(1,047)
Loss from sales of investment securities	-	-	106
Loss from revaluation of investment securities	-	-	168
Decrease in account receivables	10,962	11,175	6,984
Change in inventories	1,277	(2,608)	4,521
Change in accrued consumption tax	-	(12)	2
Increase in other current assets	(368)	(256)	(313)
Change in purchase liabilities	(7,821)	(752)	1,013
Change in unpaid consumption tax	(199)	(302)	75
Change in other current liabilities	(100)	146	44
Payment for executives' bonuses	(48)	(53)	(53)
Others	43	8	202
<b>Sub-total</b>	<b>5,821</b>	<b>9,188</b>	<b>24,314</b>
Amount received for interests and dividends	2	1	4
Amount paid for interest	(0)	(1)	(4)
Amount paid for corporation tax	(1,932)	(2,937)	(5,599)
Others	1	32	0
<b>Operating activities</b>	<b>3,892</b>	<b>6,283</b>	<b>18,714</b>
<b>Investing activities:</b>			
Expenditure from loan on short term loan	-	(0)	(0)
Income from recovery of short term loan	0	-	-
Expenditure from acquisition of tangible fixed assets	(429)	(609)	(2,709)
Expenditure from acquisition of intangible fixed assets	(152)	(127)	(302)
Expenditure from acquisition of investment securities	(74)	-	-
Income from sell-off of investment securities	39	-	1,197
Expenditure from loan on long term loan	(1)	(1)	(8)
Income from recovery of long term loan	-	1	6
Expenditure from payment of initial investment	(1)	(2)	(27)
Income from recovery of initial investment	0	-	8
Others	(81)	(3)	127
<b>Investing activities</b>	<b>(700)</b>	<b>(742)</b>	<b>(1,708)</b>
<b>Financing activities:</b>			
Income from issuing corporate shares	-	-	1
Income from issuing corporate shares to minority shareholders	-	-	35
Payment of dividends	(434)	(275)	(275)
<b>Financing activities</b>	<b>(434)</b>	<b>(275)</b>	<b>(238)</b>
<b>Increase in cash and cash equivalent</b>	<b>2,757</b>	<b>5,266</b>	<b>16,768</b>
<b>Beginning balance of cash and cash equivalents</b>	<b>20,429</b>	<b>3,661</b>	<b>3,661</b>
<b>Ending balance of cash and cash equivalents</b>	<b>23,186</b>	<b>8,927</b>	<b>20,429</b>

(4) Notable matter

(Matters related to consolidated income statement)

During the current 1Q, the Company has applied impairment loss to following asset.

Location	Purpose	Type
Suginami-Ku, Tokyo	Rental parking lot	Land

Due to the material decrease in market price of the applicable asset, its book value was reduced to the recoverable amount and 132M yen decrease was recorded as impairment loss under extraordinary expense. The recoverable amount for the applicable asset was determined through net sales price derived through subtracting estimated disposal expense from appraisal value based on market transactions in surrounding areas.

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 1Q April 1, 2005 to June 30, 2005		Previous FY 1Q April 1, 2004 to June 30, 2004		Previous FY April 1, 2004 to Mar. 31, 2005	
	Amount	Ratio	Amount	Amount	Ratio	Amount
Network Integration Products	15,370	64.0	20,926	62.9	83,015	65.7
Network Computing Products	420	1.7	791	2.4	1,471	1.2
Media Integration Products	1,771	7.4	6,876	20.7	18,649	14.7
Service Integration Products	6,462	26.9	4,675	14.0	23,236	18.4
Total	24,024	100.0	33,270	100.0	126,373	100.0

## Orders accepted by product category

(unit: rounded down to nearest million yen)

	Current FY 1Q April 1, 2005 to June 30, 2005		Previous FY 1Q April 1, 2004 to June 30, 2004		Previous FY April 1, 2004 to Mar. 31, 2005	
	Amount	Ratio	Amount	Amount	Ratio	Amount
Network Integration Products	14,397	65.9	20,100	74.2	90,282	67.0
Network Computing Products	278	1.3	525	1.9	1,905	1.4
Media Integration Products	1,521	7.0	1,576	5.8	18,941	14.1
Service Integration Products	5,632	25.8	4,887	18.1	23,609	17.5
Total	21,829	100.0	27,089	100.0	134,739	100.0

## Backlog of unfilled orders by product category

(unit: rounded down to nearest million yen)

	End of current FY 1Q (as of June 30, 2005)		End of previous FY 1Q (as of June 30, 2004)		End of previous FY (as of Mar. 31, 2005)	
	Amount	Ratio	Amount	Amount	Ratio	Amount
Network Integration Products	12,465	39.9	19,586	44.9	11,492	39.6
Network Computing Products	566	1.8	1,125	2.6	424	1.5
Media Integration Products	2,275	7.3	7,617	17.5	2,025	7.0
Service Integration Products	15,904	51.0	15,235	35.0	15,074	51.9
Total	31,211	100.0	43,564	100.0	29,016	100.0