



Financial Report for FY 2005 (ending March 2006) (Consolidated Report)

May 10, 2006

Name of registered company Net One Systems Co., Ltd.
 Location of stock listing: Tokyo Stock Exchange
 Stock Code Number: 7518
 Location of headquarters: Tokyo
 (U R L <http://www.netone.co.jp>)

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 Administrative
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Date of board meeting May 10, 2006
 for the FY

Applicability of U.S. No
 accounting standard

1 . Business Results for FY 2005 (April 1, 2005 to March 31, 2006)

(1) Consolidated Financial Results

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

	Sales		Operating Profit		Ordinary Profit	
	Million Yen	%	Million Yen	%	Million Yen	%
FY ended March 2006	107,383	(-20.3)	7,752	(-27.5)	7,824	(-26.5)
FY ended March 2005	134,739	(10.8)	10,687	(0.7)	10,648	(0.4)

	Current Net Income		Current Net Income per Share		Current Net income per share assuming full dilution		Return of Stockholder's Equity Ratio	Ordinary Profit Ratio of Total Capital	Ordinary Profit Ratio of Sales
	Million Yen	%	Yen	Sen	Yen	Sen	%	%	%
FY ended March 2006	4,783	(-20.3)	8,613	84	—	—	8.0	9.4	7.3
FY ended March 2005	6,214	(2.0)	11,183	12	—	—	11.3	13.7	7.9

- (note)
- Equity in net earnings of affiliated companies
 FY ended March 2006: (1) Million Yen
 FY ended March 2005: (9) Million Yen
 - Average number of outstanding shares (consolidated):
 FY ended March 2006: 551,688 shares
 FY ended March 2005: 551,687 shares
 - Changes in principle accounting policies: No
 - Percentage: Increase/Decrease against previous year on sales, operating profit, ordinary profit, and current net income

(2) Financial position

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio to total assets	Shareholders' Equity Per Share	
	Million Yen	Million Yen	%	Yen	Sen
FY ended March 2006	85,009	61,772	72.7	111,914	28
FY ended March 2005	80,822	57,999	71.8	105,049	57

Note: Number of outstanding shares at the end of the period

FY ended March 2006 551,688 shares

FY ended March 2005 551,688 shares

(3) Consolidated 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 year	
	Million Yen	Million Yen	Million Yen	Million Yen	
FY ended March 2006	8,748	(3,162)	(959)	25,056	
FY ended March 2005	18,714	(1,708)	(238)	20,429	

(4) Scope of consolidation and equity method

Consolidated subsidiaries: 2 subsidiaries

Unconsolidated subsidiaries (equity method is applied): -

Affiliated companies (equity method is applied): 1

(5) Change in scope of consolidation and equity method

Consolidation: increase -, decrease 2

Equity method: increase -, decrease -

2 . Forecast for the consolidated FY ending March 31, 2007 (April 1, 2006 to March 31, 2007)

	Sales	Ordinary Profit	Current Net Income
	Million yen	Million yen	Million yen
Interim period for FY ending March 2007	51,000	3,000	1,720
FY ending March 2007	120,000	8,000	4,600

(Reference) forecast current net income per share for FY ending March 31, 2007: 8,338.05 yen

(Note)The above forecast is based on currently available information and the actual business performance may differ in relation to various factors. With regards to particulars related to above forecast, please refer to Operating Results and Financial Status (d) Forecast for the next term Operating Results on page 10.

Status of Net One Systems Group

Net One Systems Group is comprised of Net One Systems Co., Ltd., four subsidiaries and two affiliated companies (From April 2006, three affiliated companies. Refer to Note 7, Business Organization Diagram on next page). The core business of Net One Systems Group is to deploy network computing system using most advanced technologies and offer related operation and management services. Although our group is involved in one business field, based on product selection and service types, business domain is categorized into network equipment products group (NI), Network Computing Products (NC), Media Integration Products (MI), and Service Integration Products (SI) (refer to below chart).

Our Group's business predominantly deals with sales of integrated packages that combine various products groups.

With regards to the varying roles within our group companies, Net One Systems Co., Ltd. is responsible for NI, NC and MI, and Network Service And Technologies Co., Ltd. is responsible for SI. Net One Systems Co., Ltd. and U.S. subsidiary, (Tennoz Initiative Inc.) perform US network market research and search for most advanced technologies and products.

(Product classification)

Product Category	Description	Major products
Network Integration products (NI)	Network design Project management Product installation	Router Switch
Network Computing products (NC)	Policy analysis, Planning, Deployment	Security device/ Authentication Load balancing device Server / Storage
Media Integration products (MI)	Wiring design, layout management Deployment process (selection, procurement, cabling)	Cable material / Wiring Work Optical communications Wireless
Service Integration products (SI)	Operation support, Installation Integrated service, Remote monitoring Integrated education, Management outsourcing	Service/ Operation management Consulting Installation Education Seminars

Note:

Network Integration Products (NI)

The realization of smooth traffic environment and stable performance are essential in creating computer networks. Network Integration provides efficient network infrastructure through high end routers and switches. Network Equipment Products Group is organized based on hardware categories as routers and switches that are required for deployment of networks.

Network Computing Products Group (NC)

Network Computing enables safe and prompt deployment of application infrastructure used in a rapidly evolving Internet environment. Network Computing is organized based on softwares and related equipment necessary for maintenance of evolving application platform including various security products and multimedia applications, as well as solutions using technically most advanced traffic management, QoS, server, and storage.

Media Products Group (MI)

With the rapid increase of business environment using multimedia contents, in computer

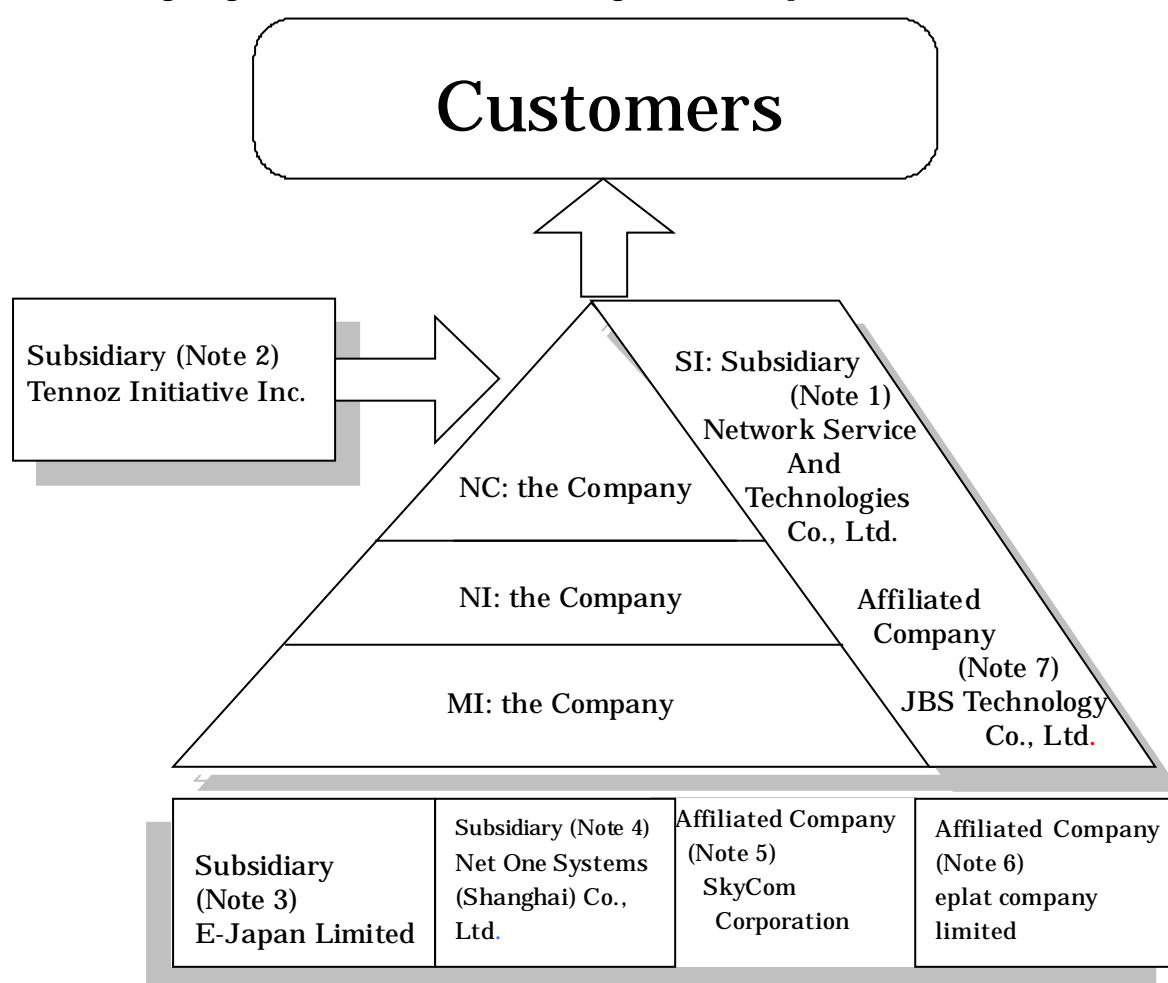
network deployment, selecting the transmission mode, the basis of networks that matches the usage objective becomes imperative. In order to answer to this need, Media Integration provides integration through design/ deployment process of physical transmission mode for diversifying high-speed networks including CATVs, mobile networks and wireless networks. Media Products Group is organized based on products related to physical transmission mode and wiring service.

Service Products Group (SI)

Service Integration provides total support ranging from network planning and deployment, to operation service/management. 24 hours, 365 days network security is the basis for ensuring secure environment provided through operation management such as traffic monitoring and appropriate troubleshooting. Furthermore, services including reduction of operational cost by traffic analysis/ billing management support, as well as education on management methods and newest technologies are provided.

[Business Organization Diagram]

The following diagram outlines the business organization explained above.



- Note 1: Network Service And Technologies Co., Ltd. is a company providing Service Integration and is a consolidated subsidiary.
- Note 2: Tennoz Initiative Inc. is a company that researches on U.S. computer network market, and advanced technologies and searches for new products. It is an unconsolidated subsidiary that does not apply equity method.
- Note 3: E-Japan is a company that provides planning, development, sales, and maintenance for softwares that use electric transaction technology including electric authentication and data exchange that use Internet, etc. as the mode of transmission. E-Japan is a consolidated subsidiary.
- Note 4: Net One Systems (Shanghai) Co., Ltd. is a company that provides everything from network system development to services to China based subsidiaries of Japanese companies. It is an unconsolidated subsidiary that does not apply equity method.
- Note 5: SkyCom Corporation's core business is to develop and offer computer network related software and equity method is applied.
- Note 6: e-plat company ltd. is a company that develops and provides energy conservation system using network technologies. It does not apply equity method.
- Note 7: JBS Technology Co., Ltd. is a company providing resident engineer services for creation, operation and maintenance of IT environment, and relative to the Company's acquisition of JBS Technology's shares in April 2006, from FY ending March 2007, equity method is applied.

Basic Management Policies

(a) Basic Policies for Management

Since establishment, our management ideology was based on emphasis on customer satisfaction, emphasis on shareholders, contribution to the society, and employee satisfaction. Our basic management policies are, 1) acquiring most advanced technology and aim to become the leading computer networking company in Japan, 2) flexibly adjust in a timely manner to the rapidly changing market and actively promote establishment of new businesses and expansion of business scope, and 3) focus on nurturing challenging spirit and providing exciting working environment to the employees to create rapidly expanding, high profit company.

Through above basic management policies, our goal is to maximize the corporate value by increasing profitability and improving capital efficiency; this will be achieved through highly advanced technical skills, offering business model that answers to the needs of the society and demand of the time, and expanding into new market.

With the rapid diversification and sophistication of Internet usage today, there is an increasing demand for advanced technical skill and knowledge of network configuration/usage including 1) consulting and proposal skills that meet to the customer needs, 2) technical support capability, comprehensive after-service system, and timely and precise technical trouble shooting, 3) availability of most advanced and reliable products/services, 4) technology leadership, 5) provision of one-stop end-to-end solution.

In order to answer to the demand of the expanding market in a comprehensive and pertinent manner, the basic management policy common to all group companies is to improve highly specialized technical skills and to provide comprehensive and customized value added network services.

Network Integration (NI) business	core business:	Net One Systems Co., Ltd.
Network Computing (NC) business	core business:	Net One Systems Co., Ltd.
Media Integration (MI) business	core business:	Net One Systems Co., Ltd.
Service Integration (SI) business	core business:	Network Service And Technologies Co., Ltd. JBS Technology Co., Ltd.

(b) Basic Policies for Profit Sharing

An interim dividend of 750 yen per share was issued this FY. At the end of FY ending March 2006, we plan to provide a common dividend of 750 yen per share in order to reach an annual dividend of 1,500 yen. As a result, dividend payout ratio will be 17,4% (consolidated).

In the future, profit payout will place greater emphasis on dividend payout. We aim for a 20% (consolidated) dividend payout by FY ending March 2008.

Relative to the enforcement of Company Law (Law Number 86 issued in 2005) from May 1, 2006, the Company will bring up a proposal aiming to partially revise the article of incorporation in June 23, 2006 general meeting of shareholders.

The revised plan for article of incorporation indicates that 1) the term of office for directors shall be revised from 2 years to 1 year and payment of dividend from surplus shall be allowed through resolutions of board of directors, and 2) record date for dividend from surplus shall be March 31 annually for end of the term, September 30 annually for mid-term, and other prescribed record dates. For the time being, the Company plans to provide dividends on a bi-annual basis at mid-term and at end of the term.

(c) Company's Mid to Long-term Business Strategy and Challenges

The Group announced in May 2005 a "3 year mid-term business strategy", but every year, we revise and update it according to verifications of market trends etc.

Mid and long-term business strategy

In the information communication business, usage of IP and broadband have advanced and within the network business, the boundaries separating former LAN and WAN is disappearing. In addition, information communication system is evolving from distributed type to centralized type. Due to further increase in business speed, the rate of network expansion and complication will continue to increase and more diverse technical skills are being required. Under current changing market environment, the Company will continue to promptly and appropriately address the market needs. More specifically, we will set up business segments that promptly answer the needs of changing market, provide new solutions to fit customer needs and broaden and specialize product line up.

With regard to the business focus, network facility, platform, security, IP communication and service will be the key words in our commitment to development of solutions for market acquisition and creation, and we will undertake to expand our business by strengthening new business development through new products and vendors. Specific aims for FY ending March 2009 (consolidated base) are 150,000M in sales and 11,000M yen in operating profit.

Issues for the Company to cope with

The achievement of the Company's business expansion requires strengthened sales network in line with the customer type (general private businesses, telecom companies, or central government agencies) and geographical locations, service menu line-up expansion through coordination with group companies, technology alliance and new product development with partner companies, and improvement of corporate basis. To this end, the Group will actively invest in personnel and new technologies to create a system capable of answering the more detailed needs of the customer and promote ongoing growth and increase corporate value.

In order to cope with this, following facility investment will continue to take place as planned (to be completed by March 2007).

(unit: rounded down to the nearest million yen)

Company name	Details of facility	Amount	Paid amount
Net One Systems Co., Ltd.	Research and development, and Investment on development of new business Expand quality control facility, etc. and evaluation facility	7,000	5,585
	Expansion and relocation of headquarters and branch offices	2,000	688
Network Service And Technologies Co., Ltd. And others	Maintenance products and expansion of branch offices	11,000	8,970
Total		20,000	15,244

(f) Items relating to parent companies

The Company does not have parent companies.

Operating results and financial status

(a) Operating results

Conditions of current FY period

During current FY, new businesses for network creations by general large-scale private companies was on a rise and the demand for facility investment was on recovery. Likewise, for public related works, although the first half of the FY was affected by budget cuts, in the second half of FY, the demand was on recovery due to increasing businesses and leads from research institutions and local governments. Meanwhile, the telecom companies are studying the trends of next generation network web and investments in existing IP facilities remained bearish.

Under this environment, consolidated fiscal year current business performance for orders accepted was 112,327M yen (11.1% decrease from previous FY), sales was 107,383M yen (20.3% decrease from previous FY,) and end of the term backlog of unfilled orders was 33,960M yen (17.0% increase from previous FY.) For sales based on Product Category, Network Integration Products and Network Computing Products (NI and NC) accounted for 74,511M yen (19.2% decrease from previous FY), Media Integration (MI) accounted for 7,464M yen (60.6% decrease from previous FY), and Service Integration (SI) accounted for 254,06M yen (7.6% increase from previous FY). With regard to profit, gross profit margin increased (current consolidated FY was 23.1%, previous consolidated FY was 18.8%, indicating 4.3% increase) but did not compensate for the decline in sales. Due to increase in selling and general administrative expenses, operating profit was 7,752M yen (27.5% decrease from previous FY), and ordinary profit was 7,824M yen (26.5% decrease from previous FY). With regard to extraordinary gain or loss, as 106M yen was accrued as reversal of allowance for doubtful receivables, and 132M yen was accrued as impairment loss, current net income was 4,783M yen (23.0% decrease from previous FY).

(b) Financial status

Financial status as of the end of current FY period

In comparison to the previous consolidated FY, total assets at the end of this consolidated FY increased by 5.2% and ended at 85,009M yen.

Current assets increased by 3,795M yen, as cash and deposits and marketable securities (negotiable deposits and commercial paper) increased by 4,627M yen, and note receivable and account receivable decreased by 1,689M yen. Due to increase in investments and in other assets, fixed assets increased by 391M yen.

Due to increase in account payable, etc., liabilities were 22,446M yen. Due to increase of earned surplus, etc., shareholders' equity was 61,772M yen.

Current consolidated FY's cash flow from operating activities decreased by 9,965M yen, and there was an 8,748M yen income. Significant attributable factors for this included 4,756M yen decrease from decreased recoverable amounts of accounts receivable, and 4,423M yen decrease from a smaller decrease of inventories. For cash flow based on investing activities, expense increased by 1,453M yen, and 3,162M yen was accrued as expense; this was mainly due to decrease of 1,147M yen as proceeds from sale of investment in securities. For cash flow based on financing activities, there was a 721M yen increase in expense, and 959M yen was accrued as expense. This was mainly due to factors as a 684M yen increase in dividend payment amounts caused by increased dividend payments after share splitting, and issuance of interim dividends. As a result, at the end of this consolidated FY, balance of cash and cash equivalents was 25,056M yen.

Cash Flow reference trend

	FY2002 (ending March 2003)	FY2003 (ending March 2004)	FY2004 (ending March 2005)	FY2005 (ending March 2006)
Shareholder's equity ratio	61.3%	70.3%	71.8%	72.7%

Shareholder's equity ratio for shares based on market value	182.1%	316.4%	187.7%	157.1%
Debt Repayment Period	0.1 year	year	0.0 year	0.0 year
Interest coverage ratio			3,888.8	1,969.0

Note:

1. Shareholder's equity ratio: Shareholder's equity/ Total assets
Shareholder's equity ratio for shares based on market value: Total market value of shares/ Total assets
Debt Repayment Period: interest-bearing liabilities/ operating cash flow
Interest coverage ratio: Operating cash flow/ interest payment.
2. Each calculation is based on financial value from consolidated statement.
3. Total value of stocks at market value has been calculated using closing stock price at FY end * number of stocks issued at end of FY (excluding repurchased shares). When there was a stock split, calculation is based on ex-rights price after adjustments.
4. For operating cash flow, operating cash flow from consolidated cash flow statement was used. Interest-bearing liabilities cover all liabilities with interest included in balance sheet. With regards to interest payment, interest payment amount in consolidated cash flow statement is used.
5. For FY with negative operating cash flow, or FY with no interest bearing-liabilities or interest payment, no calculations were made to Debt Repayment Period and Interest coverage ratio.

(c) Analysis of Operating Results and Financial Status

Analysis of Operating Results

(Sales)

With regard to Sales, there was a 27,356M yen decrease compared to previous consolidated FY and ended at 107,383M yen. Total sales decreased by 20.3% compared to previous FY as a result of 61.2% decrease in sales compared to previous FY for media integration products including optical transmission device, slow sales in the Company's core products as routers and switches, and telecommunications carriers' low IP investments.

(Cost of Goods Sold and Gross Profit on Sales)

During current consolidated FY, sales cost ratio compared to previous FY decreased by 4.3 points and gross profit margin increased to 23.1%, due to improved sales of high-quality service products (6.2% increase compared to previous FY). The increase of gross profit margin, however, could not compensate for the decrease in sales. As a result, gross profit on sales decreased by 593M yen and ended at 24,790M yen.

(Selling, general and administrative expense, operating profit)

Personnel cost increased due to the introduction of additional staff aimed at broadening the basis for sales/marketing and technology. In addition to this, rental fees for relocation and expansion of business offices increased. As a result, selling, general and administrative expense increased by 2,340M yen (15.9% increase from previous FY), and operating profit decreased by 27.5% and ended at 7,752M yen.

(Non-operating income and expense, ordinary income)

Non-operating income increased by 77M yen from previous FY, and significant contributory factors include the amount of 22M yen as an exchange gain on foreign currencies and a 17M yen increase in dividend from group insurance. On the other hand, non-operating expense decreased by 33M yen from previous FY and ended at 27M yen. Contributory factors include a 17M yen decrease in new share issuing expense, and a 11M yen decrease in exchange loss on foreign currencies. As a result, ordinary income decreased by 26.5% from previous FY and ended at 7,824M yen.

(Extraordinary profit and loss, Income before income taxes and others)

As the amount of 106M yen was accrued as reversal of allowance for doubtful receivables, extraordinary profit for the current consolidated FY amounted to 115M yen.

On the other hand, extraordinary loss amounted to 161M yen, partly due to a significant decrease in market price of land which resulted in recording an impairment loss of 132M yen. As a result, income before income taxes and others decreased by 28.2% from previous FY and ended at 7,78M yen.

(Tax expense, current net profit)

Tax expense including corporate tax, local tax, business tax and income taxes-deferred was 2,858M yen, and contribution percentage of corporate tax, etc. after applying tax effect accounting decreased from 40.92% to 36.75%. Significant contributory factors for this included increase of tax exemption due to tax system promoting IT investment. 136M yen was accrued as minor shareholders income, and current net profit decreased by 23.0% from previous FY and ended at 4,783M yen.

Analysis of financial status

(Current assets)

Current assets at the end of current consolidated FY increased by 3,795M yen compared to the end of previous FY.

Significant factors for the increase are a 2,627M yen increase in cash and deposits, a 1,999M yen increase in securities relative to surplus funds management (negotiable deposits and commercial paper). On the other hand, significant factors for decrease are a 1,689M yen decrease in note receivables and account receivables relative to decrease in sales at the end of FY.

(Fixed assets)

Fixed assets during current consolidated FY increased by 391M yen compared to previous FY.

Significant factors for the increase are a 174M yen increase (acquisition cost increased by 187M yen and accumulated depreciation increased by 12M yen) in book value for relocation and expansion of business offices, and a 211M yen increase in security deposits.

(Liabilities)

Total liabilities at the end of current consolidated FY increased by 156M yen compared to the end of previous consolidated FY.

Significant contributory factors include a 329M yen increase in account payable for fixed assets and consumables purchased at the end of the FY compared to previous FY.

(Shareholders' Equity)

Total capital at the end of current consolidated FY increased by 3,773M yen compared to the end of previous consolidated FY.

Main contributory factor to this is increase in accumulated earnings due to registration of current net income. As a result, total shareholders' equity was 61,772M yen, and shareholders' equity to total assets increased by 0.9 points and ended at 72.7%.

(d) Forecast for the next term

Operating results

Results for general large-scale private companies and for public-related works were on recovery during current consolidated FY, and are expected to continue rising due to reinforcement of networking. As for the telecom companies, since it is difficult to predict the trends in investments for next-generation network web and existing IP facilities, results of similar level as this consolidated FY are expected.

Under this environment, with regard to consolidated business performance forecast for FY ending 2007 (April 1, 2006 to March 31, 2007) expected sales, ordinary profit and current net income are 120,000M yen, 8,000M yen and 4,600M yen respectively.

(Note) The above business forecast is based on conditions our company determines to be reasonable and may vary significantly from the actual business result. Factors that may significantly

affect the actual business result 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.

Financial Status

Although the Company plans to use cash on hand for necessary cash, to prepare for cash needs, loan commitment contract totaling 8,000M yen and overdraft contract totaling 21,200M yen have been signed with the financial institutions.

(e) Business risks

Information leakage

Our Company provides everything from development of network system to services with high added value. In certain cases, the performance of our business requires that we receive confidential information such as private information etc. from our customers and proceed operation. The management and protection of the Company's information asset including the aforementioned information are important business challenges and are considered the Company's social duty.

In case of leakage of the Company's information asset, business results may be heavily affected factors as claims for damages and loss of credibility. Mainly the "Risk Management Committee" and the "Information Security Committee" under the direct supervision of the CEO promote the maintenance, strengthening and education etc. of the information asset management structure, while striving to raise awareness for information management to the Group companies and partner companies.

Business transactions with Cisco Systems K.K.

While technology rapidly evolves in IT industry and market environment is dynamically changing at an incessant pace, as a way to respond to the wide-ranging needs of the customers through emphasizing market research and technical research and development, the Company policy is to offer multi-vendor lineup rather than provide products from a single vendor. There are no contracts that place restrictions on the Company's procurement for the Company's products line up.

Presently, products of Cisco Systems K.K. make up for 40th percentile of the sales ratio; in the future, the Company aims to continue offering competitive products in multi-vendor environment.

Business transactions with top 10 customers

With regard to breakdown of sales based on customers (FY ending March 2006) sales amount to group companies of NTT (Nippon Telegraph and Telephone Corporation) totaled 30th percentile of the total sales. As transactions with these companies involve multiple transactions for various projects by the customers, the Company considers it improbable for all the business transactions to be concurrently terminated with the customers; in spite of this, if there is a decrease in orders accepted relative to economic slowdown, there may be detrimental effects on the business performance of the Company.

Effect of change in currency exchange

Overseas vendors manufacture a large share of the Company's products and as most of the procurement transaction is dollar based, the Company must take on the currency exchange risks for purchase liabilities. Although to mitigate the effect of fluctuation of currency exchange, exchange contract has been signed, this cannot eliminate all risks related to currency exchange. For currency exchange rate, if Japanese yen became weak against the American dollars, purchase cost in Japanese yen will rise. Considering the status of network related market, if increase in purchase cost could not be reflected onto the sales price, the profit ratio of the Company's business performance may become lower.

Seasonal fluctuation of business performance with concentrated sales in September and March. The Company's significant customers include public organizations and telecom companies and for these companies, due to budget plans of the companies, sales concentrate in end of first half of the FY (September) and end of the last half of the FY (March.) Although the Company attempts to average out the sales on a quarterly basis, there is a tendency for September and March sales to be greater than other months.

Obsolete products and securing adequate inventories

The rapidly evolving technologies in the network related market have shortened the life cycles of our products and services. As a result, the Company must take on the risks of negative impact on business performance from obsolescence of products in inventories. As a measure against these risks, the Company applies a routine quarterly write-down or a disposition based on experience and actual results.

Among the network related products that the Company offers, the demand for certain products may suddenly boost relative to market trend and in increasing instances, the purchase must be within a short delivery period. Although the Company aims to keep an adequate level of inventories for main line of products to comply with the change in demand, shortage of products due to change in market demand that go beyond the Company's capacity may lead to business opportunities loss and negatively affect the business performance of the Company.

Competition

Relative to rapid expansion of network related market, in the future, competition may become severer with competing companies. As a result, price competition in network related market and services may start and relative to the company's competitiveness and market status, there may be negative impacts on the business performance of the Company.

In addition, in order to offer most advanced and high-level network systems, securing professional human resources, including competent system engineers with high technical skills, is imperative. To survive the price competition, the Company will recruit and foster highly professional human resources and enhance the Company's technical skills and thereby differentiate the Company from other competitors.

Responsibility when a product is found to be defective

As a network solution provider, the Company's main line of business is to deploy the total network system in response to the customers' requests. Network related products including routers, etc. for use in customers' system deployment are procured from product vendors. The Company systematically performs screenings at product acceptance and tests before shipments for each product for quality verification purposes to ensure that delivered products are not defective. In spite of this system, any defects arising after the delivery of the products to the customers may cause the loss of customer loyalty. For system troubles, according to contracts signed between the Company, the customers and the vendor, based on the actual trouble and causes, either i) customer (inappropriate usage, etc.) ii) vendor of the applicable products, or iii) the Company as a network solution provider takes the responsibility. Most cases in the past have fallen under (ii) and the Company has never been in a position to provide indemnification for damages to the customers.

Need for operating fund

As the Company's business is "to procure networking products, create a networking web, and sell the products", for cash receipts and payments purposes, after capital is applied for purchase liabilities, account receivables are collected. Relative to expansion of the business, there is an increased tendency for the need for operating fund.

Effect of casualties, etc.

Although the Company routinely performs disaster prevention tests and equipment inspections, this ensures neither complete nor partial prevention of disasters. For example, headquarters, Quality Assurance & Management Center and Technical Center are located at Shinagawa, Tokyo and in an event of a disasters such as large earthquakes, headquarter functions, technology verification functions and logistics systems are likely to be severely impaired.

Comparative Consolidated Balance Sheet

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

	End of previous FY (as of March 31, 2005)		End of current FY (as of March 31, 2006)		Variance
	Amount	Ratio	Amount	Ratio	
ASSETS		%		%	
Current Assets	70,202	86.9	73,998	87.0	3,795
Cash and Deposits	13,429		16,056		2,627
Note Receivables and Account Receivables	37,073		35,384		(1,689)
Securities	6,999		8,999		1,999
Inventories	11,303		11,206		(97)
Deferred Income Taxes	472		668		195
Others	1,023		1,683		660
Allowance for Doubtful Receivables	(100)		(0)		99
Fixed Assets	10,619	13.1	11,011	13.0	391
Tangible Fixed Assets	5,254	6.5	5,128	6.1	(125)
Buildings and Structures	582		767		
Total Depreciation	(364)	217	(375)	391	174
Tools, Fixtures and Equipment	13,905		16,032		
Total Depreciation	(9,083)	4,822	(11,298)	4,734	(87)
Land	211		-		(211)
Lease Assets	139		139		
Total Depreciation	(136)	2	(137)	2	(0)
Intangible Fixed Assets	1,818	2.2	1,726	2.0	(92)
Consolidation Adjustment Account	21		16		(5)
Others	1,797		1,710		(86)
Investment and Other Assets	3,546	4.4	4,156	4.9	609
Investment Securities	334		429		95
Long-term Loans Receivable	31		23		(7)
Deferred Income Taxes	2,147		2,332		185
Others	1,268		1,596		328
Allowance for Doubtful Receivables	(234)		(226)		7
Total Assets	80,822	100.0	85,009	100.0	4,187

Comparative Consolidated Balance Sheet

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

	End of current FY (as of March 31, 2005)		End of current FY (as of March 31, 2006)		Variance
	Amount	Ratio	Amount	Ratio	
LIABILITIES		%		%	
Current Liabilities	22,099	27.3	22,252	26.1	153
Account Payable	14,795		15,142		346
Short-term Loans Payable	350		350		-
Miscellaneous Accounts Payable	1,032		1,362		329
Accrued Corporation Tax etc.	1,995		1,206		(788)
Allowance for Bonuses	494		545		50
Others	3,431		3,645		214
Fixed Liabilities	210	0.3	213	0.3	2
Long-term Account Payable	202		202		-
Others	8		11		2
Total Liabilities	22,309	27.6	22,466	26.4	156
MINOR SHAREHOLDERS' EQUITY					
Minor Shareholders' Equity	513	0.6	770	0.9	257
SHAREHOLDERS' EQUITY					
Capital Stock	12,279	15.2	12,279	14.4	-
Additional Paid-In Capital	19,453	24.1	19,453	22.9	-
Accumulated Earnings	26,368	32.6	30,140	35.5	3,771
Net Unrealized Gain or Loss on Securities	(8)	(0.0)	(5)	(0.0)	2
Repurchased Stocks	(94)	(0.1)	(94)	(0.1)	-
Total Shareholders' Equity	57,999	71.8	61,772	72.7	3,773
Total Liabilities, Minor Shareholders' Equity, Shareholders' Equity	80,822	100.0	85,009	100.0	4,187

Comparative consolidated income statement

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

	End of previous FY (April 1, 2004 to March 31, 2005)		End of current FY (April 1, 2005 to March 31, 2006)		Variance
	Amount	Ratio	Amount	Ratio	
Sales	134,739	100.0	107,383	100.0	(27,356)
Cost of Goods Sold	109,355	81.2	82,592	76.9	(26,762)
Gross Profit on Sales	25,384	18.8	24,790	23.1	(593)
Selling, General and Administrative Expense	14,697	10.9	17,038	15.9	2,340
Operating Profit	10,687	7.9	7,752	7.2	(2,934)
Non-Operating Income	21	0.0	99	0.1	77
Interest Income	3		4		0
Dividends	0		1		0
Amortization of Consolidation Adjustment Account	0		-		(0)
Exchange Gain on Foreign Currencies	-		22		22
Dividend from Group Insurance	3		21		17
Other Income	13		50		37
Non-Operating Expense	61	0.0	27	0.0	(33)
Interest Expense	4		4		0
Investment Loss on Equity Method	9		1		(7)
Issuing New Shares Expense	17		0		(17)
Exchange Loss on Foreign Currencies	11		-		(11)
Commitment Fee	9		9		(0)
Investment Operation Loss	4		2		(2)
Other Loss	3		9		6
Ordinary Profit	10,648	7.9	7,824	7.3	(2,823)
Extraordinary Profit	1,225	0.9	115	0.1	(1,109)
Reversal of Allowance for Doubtful Receivables	38		106		67
Gain on Sales of Fixed Assets	-		8		8
Gain on sales of Investment Securities	1,047		0		(1,046)
Gain on Termination of Approved Retirement Annuity System	137		-		(137)
Others	2		-		(2)
Extraordinary Loss	1,034	0.8	161	0.2	(872)
Loss from Removal of Fixed Assets	27		14		(13)
Impairment Loss	-		132		132
Loss from Sale of Investment Securities	106		-		(106)
Loss on Sales of Stocks of Affiliated Companies	-		14		14
Loss from Revaluation of Investment Securities	168		1		(167)
Loss on Disposal of Obsolete Inventories	421		-		(421)
Additional Service Fee Relative to Termination of Retirement Benefits for Executives	77		-		(77)
Retirement Allowance Plan Adjustment Fee	118		-		(118)
Others	113		-		(113)

Income before Income Taxes and Others	10,839	8.0	7,778	7.2	(3,060)
Corporation Tax, Local Tax and Business Tax	4,349	3.2	3,241	3.0	(1,107)
Income Taxes Deferred	86	0.1	(382)	(0.4)	(469)
Minor Shareholders Income	190	0.1	136	0.1	(53)
Current Net Income	6,214	4.6	4,783	4.5	(1,430)

Comparative Consolidated Surplus Statement

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

	Previous FY April 1, 2004 to March 31, 2005	Current FY April 1, 2005 to March 31, 2006	Variance
	Amount	Amount	
ADDITIONAL PAID-IN CAPITAL			
Beginning balance of Additional Paid-In Capital	19,452	19,453	0
Additional Paid-In Capital increase	0	-	(0)
Increase due to exercise of stock options	0	-	(0)
Ending balance of Additional Paid-In Capital at the end of FY	19,453	19,453	-
ACCUMULATED EARNINGS			
Beginning balance of Accumulated Earnings	20,482	26,368	5,886
Accumulated Earnings increase	6,214	4,783	(1,430)
Current Net Income	6,214	4,783	(1,430)
Accumulated Earnings decrease	327	1,011	684
Dividend	275	965	689
Executives' bonuses	51	46	(5)
Ending balance of Accumulated Earnings at the end of FY	26,368	30,140	3,771

Comparative Consolidated Cash Flow Statement

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

	Previous FY April 1, 2004 to March 31, 2005	Current FY April 1, 2005 to March 31, 2006	Variance
	Amount	Amount	Amount
Operating Activities:			
Current net income before taxes	10,839	7,778	(3,060)
Depreciation expense	2,569	2,833	264
Impairment loss	132	132	132
Depreciation amount for consolidation adjustment account	(0)	3	4
Decrease in allowance for employee retirement benefits	(513)	-	513
Decrease in allowance bonus for executives	(201)	-	201
Change in allowance for bonus	(44)	50	94
Decrease in allowance for doubtful receivables	(50)	(107)	(56)
Interest received and dividends received	(4)	(5)	(1)
Investment loss on equity method	9	1	(7)
Interest payment	4	4	0
Gain from sales of investment securities	(1,047)	0	1,046
Loss from removal of fixed assets	27	14	(13)
Loss from sales of investment securities	106	-	(106)
Loss on sale of stocks of affiliated companies		14	14
Loss from revaluation of investment securities	168	1	(167)
Decrease in account receivable	6,984	2,227	(4,756)
Decrease in inventories	4,521	97	(4,423)
Change in consumption tax etc. receivable	2	(158)	(160)
Increase in other current assets	(313)	(424)	(110)
Increase in purchase liabilities	1,013	349	(664)
Change in consumption tax etc. payable	75	(361)	(436)
Increase in other current liabilities	44	329	284
Payment for executives' bonuses	(53)	(48)	4
Others	175	(114)	(289)
Sub-Total	24,314	12,619	(11,695)
Amount received for interests and dividends	4	5	1
Amount paid for interest	(4)	(4)	0
Amount paid for corporation tax	(5,599)	(3,933)	1,666
Others	0	62	62
Operating Activities	18,714	8,748	(9,965)
Investing Activities:			
Expenditure from loan on short-term loan	(0)	(1)	(0)
Income from recovery of short-term loan	-	0	0
Expenditure from acquisition of tangible fixed assets	(2,709)	(2,546)	163
Expenditure from acquisition of intangible fixed assets	(302)	(267)	34
Expenditure from acquisition of investment securities	-	(143)	(143)
Income from sale of investment securities	1,197	50	(1,147)
Income from sale of stocks of affiliated companies	-	110	110
Expenditure from loan on long-term loan	(8)	(5)	2
Income from recovery of long-term loan	6	0	(6)
Expenditure from payment of initial investment	(27)	(5)	21
Income from recovery of initial investment	8	0	8
Others	127	(352)	
Investing Activities	(1,708)	(3,162)	(1,453)
Financing Activities:			
Income from issuing corporate shares	1	-	(1)
Income from issuing corporate shares to minority shareholders	35	-	(35)
Payment of dividends	(275)	(959)	(684)
Financing Activities	(238)	(959)	(721)
Increase in cash and cash equivalents	16,768	4,627	(12,141)
Beginning balance of cash and cash equivalents	3,661	20,429	16,768
Ending balance of cash and cash equivalents	20,429	25,056	4,627

Significant matters related to the basis of creation of consolidated financial statements

1. Matters related to the scope of consolidation

(1) Number of consolidated subsidiaries 2 companies

Names of major consolidated subsidiaries

Network Service And Technologies, Co., Ltd.

E-Japan Limited

Due to merger of former consolidated subsidiary, Media Communication Systems K.K., into Net One Systems through absorption (simplified merger) as of April 1, 2005 and finalization of ProStorage Co., Ltd.'s dissolution as of May 24, 2005, both companies are no longer consolidated subsidiaries.

(2) Names, etc. of major non-consolidated subsidiaries

Name of major consolidated subsidiaries Tennoz Initiative Inc.

Net One Systems (Shanghai) Co., Ltd.

Net One Systems (Shanghai) Co., Ltd. is a wholly owned subsidiary established as of January 2006. (reason for not including in the consolidation)

Non-consolidated subsidiary is a small scale company and does not significantly affect total assets, sales, the current FY net profit/loss (amount comparable to equity), and surplus (amount comparable to equity) of consolidated financial statements.

2. Matters related to application of equity method

(1) Number of affiliated company applying equity method 1 company

Name of company SkyCom Corporation

(2) Equity method is not applied for non-consolidated subsidiaries (Tennoz Initiative Inc., Net One Systems (Shanghai) Co., Ltd.) and affiliated company (e-plat Company Limited) because even if they are excluded, in terms of consolidated financial statements, they do not affect significantly the current FY net profit/loss (amount comparable to equity) and surplus (amount comparable to equity), and they have little overall impact.

3. Matters related to accounting period of consolidated subsidiaries

Accounting period of all consolidated subsidiaries coincide with consolidated accounting period.

4. Matters related to accounting policies

(1) Valuation standard and valuation method for significant assets

Securities

Other securities

Securities with market value

Market value method based on market value on closing date (Accounting for differences in valuation is total direct casting equity method and for selling cost of securities, moving average method is applied.)

Securities without market value

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

Derivatives

Market value

Inventories

Merchandises	Cost accounting method using moving average method
Uncompleted works	Cost accounting method using individual method

(2) Accounting method for significant depreciation of depreciable assets

Tangible fixed assets	Declining balance method is applied, with an exception of lease assets which employs straight line method. Significant assets lives are: Buildings 3-26 years Tools, Fixtures and Equipment 2-20 years Lease Assets 6 years
Intangible fixed assets	
Software for own use	Straight line method based on corporate usability period (5 years)
Software for sale	Straight line method based on useful life (3 years)

(3) Accounting method for accrual of significant allowance

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.

Allowance for bonus

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

(4) Policy on conversion of significant assets and liabilities in foreign currency to local currency

Foreign currency receivables and payables are converted to yen at spot exchange rate on consolidated closing date and exchange difference is processed as gain or loss.

(5) Significant lease transaction accounting method

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) Significant hedge accounting method

Hedge accounting method

Carry over hedge accounting is applied. For Exchange Contract when requirements for allocation procedure are met, allocation procedure is applied.

Hedge procedure and subject

Hedge Procedure	:	Exchange Contract
Subject to hedge	:	Planned foreign currency transactions

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.

Hedge efficiency valuation policy

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

- (7) Other significant items for creating consolidated financial statements
Accounting policy for consumption tax. etc.
Pre-tax method is applied for consumption tax and local consumption tax.
5. Items relating to evaluation of assets and liabilities of consolidated subsidiaries
Market value method is applied to all evaluation of assets and liabilities for consolidated subsidiaries.
6. Items relating to amortization of consolidation adjustment account
Consolidation adjustment account is amortized over 5 years using the straight line method.
7. Items under appropriation of earnings
Appropriation of earnings of consolidated companies in Consolidated Surplus Statement has been made based on appropriation of earnings established during consolidated fiscal year.
8. Scope of funds in consolidated cash flow statement
Funds in current consolidated cash flow statement are cash on hand, deposits that may be withdrawn on a temporary as-needed basis, and short term investment expected to be redeemed within 3 months of acquisition and which may be swiftly converted to cash and imposes minimal price fluctuation.

Changes in significant matters related to the basis of creation of consolidated financial statements

(Accounting policy for impairment loss on fixed assets)

From current consolidated FY, accounting policy for impairment loss on fixed assets “Statement regarding establishment of accounting policy for impairment loss on fixed assets” (Business Accounting Council, August 9, 2002) and “Guideline for the application of accounting policy for impairment loss on fixed assets” (Guideline for Application of Business Accounting Policies, number 6, October 31, 2003) are applied.

As a result of this change, income before income taxes and others decreased by 132M yen.

The total impairment loss was directly deducted from applicable assets based on revised regulations for consolidated financial statements.

Notable Matters

(Matters Related to Consolidated Balance Sheet)

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

Previous Consolidated FY (as of March 31, 2005)	Current Consolidated FY (as of March 31, 2006)												
<p>(1) Items regarding unconsolidated subsidiary and affiliated companies</p> <table border="1" style="margin-left: 40px;"> <tr> <td>Investment securities (stocks)</td> <td style="text-align: right;">94</td> </tr> <tr> <td> </td> <td> </td> </tr> </table>	Investment securities (stocks)	94			<p>(1) Items regarding unconsolidated subsidiary and affiliated companies</p> <table border="1" style="margin-left: 40px;"> <tr> <td>Investment securities (stocks)</td> <td style="text-align: right;">216</td> </tr> <tr> <td>(Investment and Other Assets) Others (Investments)</td> <td style="text-align: right;">104</td> </tr> </table>	Investment securities (stocks)	216	(Investment and Other Assets) Others (Investments)	104				
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<p>(2) Overdraft contract and loan commitment contract</p> <p style="margin-left: 40px;">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.</p> <table style="margin-left: 40px;"> <tr> <td>Maximum amount of the overdraft and loan commitment</td> <td style="text-align: right;">29,200</td> </tr> <tr> <td>Amount loaned</td> <td style="text-align: right;">-</td> </tr> <tr> <td style="border-top: 1px solid black;">End balance</td> <td style="text-align: right; border-top: 1px solid black;">29,200</td> </tr> </table>	Maximum amount of the overdraft and loan commitment	29,200	Amount loaned	-	End balance	29,200	<p>(2) Overdraft contract and loan commitment contract</p> <p style="margin-left: 40px;">In order to efficiently procure operating fund, overdraft contract and loan commitment has been signed with 5 company banks. End of term balance for unused credit is as follows.</p> <table style="margin-left: 40px;"> <tr> <td>Maximum amount of the overdraft and loan commitment</td> <td style="text-align: right;">29,200</td> </tr> <tr> <td>Amount loaned</td> <td style="text-align: right;">-</td> </tr> <tr> <td style="border-top: 1px solid black;">End balance</td> <td style="text-align: right; border-top: 1px solid black;">29,200</td> </tr> </table>	Maximum amount of the overdraft and loan commitment	29,200	Amount loaned	-	End balance	29,200
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<p>(4) Type and number of repurchased shares</p> <table style="margin-left: 40px;"> <tr> <td>Type of Repurchased Stocks</td> <td style="text-align: center;">Common Shares</td> </tr> <tr> <td>Repurchased Stocks</td> <td style="text-align: right;">211 shares</td> </tr> </table>	Type of Repurchased Stocks	Common Shares	Repurchased Stocks	211 shares	<p>(4) Type and number of repurchased shares</p> <table style="margin-left: 40px;"> <tr> <td>Type of Repurchased Stocks</td> <td style="text-align: center;">Common Shares</td> </tr> <tr> <td>Repurchased Stocks</td> <td style="text-align: right;">211 shares</td> </tr> </table>	Type of Repurchased Stocks	Common Shares	Repurchased Stocks	211 shares				
Type of Repurchased Stocks	Common Shares												
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Type of Repurchased Stocks	Common Shares												
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(Matters related to Consolidated Income Statement)

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

Previous Consolidated FY April 1, 2004 to March 31, 2005	Current Consolidated FY April 1, 2005 to March 31, 2006																						
<p>(1) Expenses and amounts for major items under Selling, General and Administrative Expenses</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Allowance for Compensation</td> <td style="text-align: right; width: 20%;">6,058</td> </tr> <tr> <td>Allocation of Allowance for Bonus</td> <td style="text-align: right;">345</td> </tr> <tr> <td>Allocation of Allowance for Employee Retirement Benefits</td> <td style="text-align: right;">226</td> </tr> <tr> <td>Allocation of Allowance for Retirement Benefits for Executives</td> <td style="text-align: right;">11</td> </tr> <tr> <td>Rental Expense</td> <td style="text-align: right;">1,377</td> </tr> <tr> <td>Expense for Depreciation</td> <td style="text-align: right;">753</td> </tr> </table>	Allowance for Compensation	6,058	Allocation of Allowance for Bonus	345	Allocation of Allowance for Employee Retirement Benefits	226	Allocation of Allowance for Retirement Benefits for Executives	11	Rental Expense	1,377	Expense for Depreciation	753	<p>(1) Expenses and amounts for major items under Selling, General and Administrative Expenses</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Allowance for Compensation</td> <td style="text-align: right; width: 20%;">6,846</td> </tr> <tr> <td>Allocation of Allowance for Bonus</td> <td style="text-align: right;">369</td> </tr> <tr> <td>Rental Expense</td> <td style="text-align: right;">1,539</td> </tr> <tr> <td>Expense for Depreciation</td> <td style="text-align: right;">962</td> </tr> <tr> <td>Amount for Consolidation Adjustment Depreciation</td> <td style="text-align: right;">3</td> </tr> </table>	Allowance for Compensation	6,846	Allocation of Allowance for Bonus	369	Rental Expense	1,539	Expense for Depreciation	962	Amount for Consolidation Adjustment Depreciation	3
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<p>(2) Total Research and Development Expense included in General and Administrative Expenses.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Research and Development Expense</td> <td style="text-align: right; width: 20%;">1,632</td> </tr> </table>	Research and Development Expense	1,632	<p>(2) Total Research and Development Expense included in General and Administrative Expenses.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Research and Development Expense</td> <td style="text-align: right; width: 20%;">2,057</td> </tr> </table>	Research and Development Expense	2,057																		
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<p>(3) _____</p>	<p>(3) Items under Gain on Sales of Fixed Assets</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Land</td> <td style="text-align: right; width: 20%;">8</td> </tr> </table>	Land	8																				
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Buildings and Structures	5																						
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(unit: figures are rounded down to the nearest million yen)

Previous Consolidated FY April 1, 2004 to March 31, 2005	Current Consolidated FY April 1, 2005 to March 31, 2006								
(5) _____	<p data-bbox="850 297 1157 331">(5) Impairment Loss</p> <p data-bbox="930 371 1520 483">During current consolidated FY, our Group has applied Impairment Loss to the following assets</p> <table border="1" data-bbox="919 488 1516 649"> <thead> <tr> <th data-bbox="919 488 1129 528">Location</th> <th data-bbox="1129 488 1273 528">Purpose</th> <th data-bbox="1273 488 1377 528">Type</th> <th data-bbox="1377 488 1516 528">Amount</th> </tr> </thead> <tbody> <tr> <td data-bbox="919 528 1129 649">Suginami-Ku, Tokyo</td> <td data-bbox="1129 528 1273 649">Rental parking lot</td> <td data-bbox="1273 528 1377 649">Land</td> <td data-bbox="1377 528 1516 649">132</td> </tr> </tbody> </table> <p data-bbox="930 656 1520 925">As our Group created cash flow through bundling all assets used for the purpose of network related business, asset is indicated as one group. However, for assets not used for the purpose of aforementioned business, they have been grouped based on individual items.</p> <p data-bbox="930 931 1520 1167">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.</p> <p data-bbox="930 1173 1520 1408">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.</p> <p data-bbox="930 1415 1520 1684">The applicable asset was sold after Impairment Loss had been recorded. Thus an amount of 8M yen, the difference between its book value after Impairment Loss had been recorded and sale value, was recorded as Gain on Sales of Fixed Assets under Extraordinary Profit.</p>	Location	Purpose	Type	Amount	Suginami-Ku, Tokyo	Rental parking lot	Land	132
Location	Purpose	Type	Amount						
Suginami-Ku, Tokyo	Rental parking lot	Land	132						

(Matters related to Consolidated Cash Flow)

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

Previous Consolidated FY April 1, 2004 to March 31, 2005	Current Consolidated FY April 1, 2005 to March 31, 2006
The relationship between cash and cash equivalents in balance at the end of FY and amounts indicated in items in Consolidated Balance Sheet. (as of March 31, 2005)	The relationship between cash and cash equivalents in balance at the end of FY and amounts indicated in items in Consolidated Balance Sheet. (as of March 31, 2006)
Cash and Deposit Account Short-term Investment expected to be redeemed within 3 months of acquisition (securities)	Cash and Deposit Account Short-term Investment expected to be redeemed within 3 months of acquisition (securities)
13,429 6,999	16,056 8,999
Cash and Cash Equivalents	Cash and Cash Equivalents
20,429	25,056

(Segment Information)

1. Segment information by business category

Previous consolidated FY (April 1, 2004 to March 31, 2005) and current consolidated FY (April 1, 2005 to March 31, 2006)

Net One Systems Group's business focuses on network computing system deployment and related operation/management service and as they fall on the same segment category, segment information by business category is not provided.

2. Segment information by location

Previous consolidated FY (April 1, 2004 to March 31, 2005) and current consolidated FY (April 1, 2005 to March 31, 2006)

As there are no significant subsidiaries or foreign office outside Japan, there are no comments that fall in this category.

3. Oversea sales

Previous consolidated FY (April 1, 2004 to March 31, 2005) and current consolidated FY (April 1, 2005 to March 31, 2006)

Oversea sales have been abbreviated as oversea sales account for less than 10% of the consolidated sales.

(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.

(Transactions with related companies)

Current consolidated FY (April 1, 2005 to March 31, 2006)

There are no comments that fall in this category.

(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 Consolidated FY (as of March 31, 2005)	Current Consolidated FY (as of March 31, 2006)
Deferred Income Tax Assets (Current)		
Business Tax Payable	153	130
Allowance for bonus	201	221
Loss on Disposal of, and Devaluation Loss on Inventories	-	138
Others	120	177
Total Deferred Income Tax Assets (Current)	<u>474</u>	<u>668</u>
Deferred Income Tax Liabilities (Current)		
Others	(2)	(0)
Total Deferred Income Tax Liabilities (Current)	<u>(2)</u>	<u>(0)</u>
Total Net Deferred Income Tax Assets (Current)	<u>472</u>	<u>668</u>
Deferred Income Tax Assets (Fixed)		
Allowance for Depreciation of Tools, Fixtures and Equipment	1,364	1,578
Software Fee	157	246
Allowance for Doubtful Receivables	59	53
Outstanding Retirement Benefits for Executives	82	82
Loss from Revaluation of Investment Securities	354	179
Net Unrealized Gain or Loss on Other Securities	5	3
Others	132	192
Total Deferred Income Tax Assets (Fixed)	<u>2,155</u>	<u>2,337</u>
Deferred Income Tax Liabilities (Fixed)		
Reserve for Extraordinary Depreciation	(8)	(5)
Total Deferred Income Tax Liabilities (Fixed)	<u>(8)</u>	<u>(5)</u>
Total Net Deferred Income Tax Assets (Fixed)	<u>2,147</u>	<u>2,332</u>

2. Breakdown of significant items that lead to difference between statutory effective tax rate and contribution percentage of income taxes (corporation tax etc.) after applying tax effect accounting, in case this difference is important.

Previous Consolidated FY (as of March 31, 2005)	Current Consolidated FY (as of March 31, 2006)
Explanatory note has been abbreviated since the difference between statutory effective tax rate and contribution percentage of corporation tax etc. after applying tax effect accounting is less than 5/100.	Statutory Effective Tax Rate (adjustment) 40.69 (%)
	Entertainment expenses etc. not qualifying for deduction 0.71
	Dividends income etc. not qualifying as gross revenue (1.55)
	Local Tax on per capita basis etc. 0.34
	Untaxed amount for devaluation loss of affiliate company stocks due to finalization of its dissolution (0.68)
	Tax exemption due to tax system promoting IT investment (2.86)
	Others <u>(0.10)</u>
	Contribution Percentage of income taxes (Corporation Tax etc.) after applying Tax Effect Accounting 36.75

(Matters related to Marketable Securities)

(Previous Consolidated FY) (as of March 31, 2005)

1. Marketable securities intended for sales

There are no applicable shares.

2. Bonds with marketable value intended to be held until maturity date

There are no applicable shares

3. Other securities with market value

(unit: figures below million have been rounded down)

	Type	Acquisition value	Amount accrued in consolidated balance sheet	Difference
Items with acquisition value that exceeds the amount accrued in consolidated balance sheet	(1) Stocks	-	-	-
	(2) Bonds			
	Government/ local government bonds, etc.	-	-	-
	Corporate Bond	-	-	-
	Others	-	-	-
	(3) Others			
	Subtotal	-	-	-
Items with acquisition value that does not exceed the amount accrued in consolidated balance sheet	(1) Stocks	1	1	-
	(2) Bonds			
	Government/ Local, government bonds, etc.	-	-	-
	Corporate Bond	-	-	-
	Others	-	-	-
	(3) Others			
	Subtotal	1	1	-
Total		1	1	-

As deduction process (158M yen) was applied to acquisition value to shares with acquisition value (1M yen) that does not exceed the amount accrued in consolidated balance sheet, acquisition value after deduction process is indicated.

With regard to shares for deduction, for shares with acquisition value that dropped 50% or more than market value, deduction process was applied and for shares with acquisition value that dropped approximately 30% to 50%, deduction process was applied after considering the possibility of market value recovery.

4. Bonds intended to be held until maturity date and sold during current FY

There are no applicable shares.

5. Other securities sold during current consolidated FY (April 1, 2004 to March 31, 2005)

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

Sales amount	Total gain on sales	Total loss on sales
1,199	1,047	106

6. Breakdown of significant securities without market value

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

Type	Amount accrued in consolidated balance sheet
(1) Bonds intended to be held until maturity date	-
(2) Other marketable securities	
Unlisted stocks	238
Commercial paper	4,999
Negotiable deposit	2,000

(Note) During current consolidated FY, for other securities, unlisted securities, deduction process (10M yen) was applied for calculation of consolidated balance sheet.

For shares where net assets per share according to the latest financial statements dropped 30% or more in comparison to acquisition costs per share, deduction process was applied through considering factors as the number of years after equity financing and the probability of recovery of financial status of applicable companies.

7. Expected redemption value for other marketable securities having maturity date and bonds intended to be held until maturity date

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

	Within 1 year	Over 1 year and less than 5 years	Over 5 years and less than 10 years	Over 10 years
1. Bonds				
(1) Government/ local government bonds, etc.	-	-	-	-
(2) Corporate Bond	-	-	-	-
(3) Others	-	-	-	-
2. Others	-	-	-	-
	6,999			
Total	6,999	-	-	-

(Current Consolidated FY) (as of March 31, 2006)

1. Marketable securities intended for sales

There are no applicable shares.

2. Bonds with marketable value intended to be held until maturity date

There are no applicable shares.

3. Other securities with market value

There are no applicable shares.

4. Bonds intended to be held until maturity date and sold during current FY

There are no applicable shares.

5. Other securities sold during current consolidated FY (April 1, 2005 to March 31, 2006)

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

Sales amount	Total gain on sales	Total loss on sales
50	0	-

6. Breakdown of significant securities without market value

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

Type	Amount accrued in consolidated balance sheet
(1) Bonds intended to be held for full term	
(2) Other marketable securities	-
Unlisted stocks	212
Commercial paper	5,999
Negotiable deposit	3,000

7. Expected redemption value for other marketable securities having maturity date and bonds intended to be held until maturity date

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

	Within 1 year	Over 1 year and less than 5 years	Over 5 years and less than 10 years	Over 10 years
1. Bonds				
(3) Government/ Local, government bonds, etc.	-	-	-	-
(2) Corporate Bond	-	-	-	-
(3) Others	-	-	-	-
2. Others	-	-	-	-
	8,999			
Total	8,999	-	-	-

(Matters related to derivative transactions)

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

(Matters related to allowance for retirement benefits)

Previous Consolidated FY (as of March 31, 2005)

1. Summary of the allowance for retirement benefits

Our company offered defined benefit plan by approved retirement annuity system but from October 2004, the Company shifted to defined contribution pension plan and prepaid retirement benefit plan. Of the consolidated subsidiaries, two companies had retirement allowance plan, but as of January 2005, one company shifted to defined contribution pension plan and prepaid retirement benefit plan and as the other company will merge by absorption with the Company in April 2005, retirement allowance plan for both companies have been adjusted. Our Company and some consolidated subsidiaries are members of multi-companies pension fund comprised of multiple companies.

2. Items under retirement allowance payment (as of March 31, 2005)

The effect of shift from approved retirement annuity system to defined contribution pension plan and prepaid retirement benefit plan, and adjustment to retirement allowance plan is as follows.

	(unit: rounded down to the nearest million yen)
Decrease in benefit obligation	2,044
Decrease in plan assets	(992)
<u>Unrecognized actuarial loss</u>	<u>(346)</u>
<u>Decrease in allowance for retirement benefits(+ +)</u>	<u>705</u>

(Note) Asset transfer amount relative to shifting to defined contribution pension plan was 1,922M yen and the transfer has been completed during current consolidated FY.

3. Items for retirement benefit cost (April 1, 2004 to March 31, 2005)

	(unit: rounded down to nearest million yen)
Service cost	178
Interest cost	13
Expected return on plan assets	(7)
Amortization of net actuarial loss	65
<u>Amortization of prior service cost</u>	<u>-</u>
<u>Net retirement benefits cost(+ + + +)</u>	<u>250</u>
Gain or loss relative to termination of approved retirement annuity system and adjustment to retirement allowance plan	(19)
<u>Defined contribution pension plan installment and prepaid retirement fee</u>	<u>122</u>
<u>Total (+ +)</u>	<u>353</u>

(Note) 1. In addition to the above, there is a 148M yen installation fee for multi-companies pension fund.

2. Net retirement benefit cost for consolidated subsidiaries applying simplified method has been included under Service cost.

4. Items regarding prospective basis for calculation of retirement benefits (April 1, 2004 to September 30, 2004)

Allocation method of prospective retirement benefits	Flat rate basis per term
Rate of discount	1.5%
Rate of expected return on plan assets	1.5%
Number of years for amortization of prior service cost	-
Number of years for amortization of net actuarial loss	5 years

(Fixed amount method is applied to predetermined number of years within the average number of years of employment at the time of the calculation and the proportional amount is expensed from subsequent consolidated FY).

5. Of the plan assets required for jointly established pension fund, the amount of plan assets balance at the end of this FY calculated based on contributory amount of premium by the Company and some consolidated subsidiaries (as of March 31, 2005)

2,878M yen

Current Consolidated FY (as of March 31, 2006)

1. Summary of the allowance for retirement benefits

Our Company and some consolidated subsidiaries use the defined contribution pension plan and prepaid retirement benefit plan. In addition, our Company and some consolidated subsidiaries are members of multi-companies pension fund comprised of multiple companies.

2. Items for retirement benefit cost (April 1, 2005 to March 31, 2006)

(unit: million yen)

Defined contribution pension plan installment and prepaid retirement fee	304
Multi-companies pension fund installment fee	202
Total	507

3. Of the plan assets required for multi-companies pension fund, the amount of plan assets balance at the end of this FY calculated based on contributory amount of premium by the Company and some consolidated subsidiaries (as of March 31, 2006)

4,764M yen

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

Orders accepted by product category

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

	Previous Consolidated FY April 1, 2004 to March 31, 2005		Current Consolidated FY April 1, 2005 to March 31, 2006		Variance	
	Amount	Ratio	Amount	Amount	Ratio	Amount
Network Integration Products	83,015	65.7	74,044	65.9	(8,970)	(10.8)
Network Computing Products	1,471	1.2	2,101	1.9	630	42.9
Media Integration Products	18,649	14.7	7,239	6.4	(11,410)	(61.2)
Service Integration Products	23,236	18.4	28,941	25.8	5,704	24.5
Total	126,373	100.0	112,327	100.0	(14,045)	(11.1)

Sales by product category

(unit: figures below million yen have been rounded down)

	Previous Consolidated FY April 1, 2004 to March 31, 2005		Current Consolidated FY April 1, 2005 to March 31, 2006		Variance	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Network Integration Products	90,282	67.0	72,275	67.3	(18,007)	(19.9)
Network Computing Products	1,905	1.4	2,236	2.1	330	17.3
Media Integration Products	18,941	14.1	7,464	6.9	(11,476)	(60.6)
Service Integration Products	23,609	17.5	25,406	23.7	1,796	7.6
Total	134,739	100.0	107,383	100.0	(27,356)	(20.3)

Backlog of unfilled orders by product category

(unit: figures below million yen have been rounded down)

	Previous Consolidated FY (as of March 31, 2005)		Current Consolidated FY (as of March 31, 2006)		Variance	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Network Integration Products	11,492	39.6	13,261	39.0	1,769	15.4
Network Computing Products	424	1.5	289	0.9	(134)	(31.6)
Media Integration Products	2,025	7.0	1,799	5.3	(225)	(11.1)
Service Integration Products	15,074	51.9	18,608	54.8	3,534	23.4
Total	29,016	100.0	33,960	100.0	4,943	17.0