



Financial Report for FY 2006 (ending March 2007) (Consolidated Report)

February 1, 2007

Name of registered company Net One Systems Co., Ltd.
 Location of stock listing: Tokyo Stock Exchange
 Stock code number: 7518
 Location of headquarters: Tokyo
 (URL <http://www.netone.co.jp/index.html>)
 Representative President & CEO Osamu SAWADA
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1. Matters related to preparation of business performance

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 March 2005 and current quarter: None
 Change in scope of consolidation and equity method: Yes
 (Details) Consolidation: (Increase) -, (Decrease) -
 Equity method: (Increase) 1, (Decrease) -

2. Business Results for FY 2006 3rd Quarter (April 1, 2006 to December 31, 2006)

(1) Consolidated Financial Results (unit: figures are rounded down to nearest million yen)

	Sales		Operating Profit		Ordinary Profit	
	Million yen	%	Million yen	%	Million yen	%
Quarter ended December 31, 2006	76,0786.5		3,155(39.2)		3,148(40.2)	
Quarter ended December 31, 2005	71,447(19.9)		5,191(20.8)		5,259(19.5)	
FY ended March 2006	107,383		7,752		7,824	

	Current net income		Current net income per Share		Current net income per share assuming full dilution	
	Million yen	%	yen	sen	yen	sen
Quarter ended December 31, 2006	1,687	(45.7)	3,059	04		
Quarter ended December 31, 2005	3,109	(12.7)	5,636	49		
FY ended March 2006	4,783		8,613	84		

Footnote: Percentage: increase/decrease against previous FY 3Q on sales, operating profit, etc.

(2) Changes in financial position

	Total assets	Net assets	Net assets ratio to total assets	Net assets per share	
	Million yen	Million yen	%	yen	sen
Quarter ended December 31, 2006	79,342	63,571	79.2	113,833	61
Quarter ended December 31, 2005	75,014	60,099	80.1	108,937	18
FY ended March 2006	85,009	61,772	72.7	111,914	28

(3) Cash flow

	Net cash provided by operating activities	Net cash provided by investing activities	Net cash provided by financing activities	Cash and cash equivalents at end of the term
	Million yen	Million yen	Million yen	Million yen
Quarter ended December 31, 2006	4,882	(2,611)	(818)	26,508
Quarter ended December 31, 2005	8,396	(1,913)	(944)	25,968
FY ended March 2006	8,748	(3,162)	(959)	25,056

3. 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
FY ending March 2007	120,000	7,500	4,300

(Reference) Forecast current net income per share for FY ending March 31, 2007: 7,794.26 yen

Footnote:

The above forecast is the revised forecast made on August 7, 2006. Readjustments are currently being made to the forecast and are expected to be released within February, 2007. For details, please view Forecast for FY on page 3.

Operating Results

During current quarter, among large scale non-governmental companies, investment needs by financial institutions as well as other industries including auto-industries were on the rise. Although investment by telecom companies that had plunged in the previous FY partially recovered in current quarter, the wait and see approach to installment of next generation network continued. The price competition in the public sector was intense and orders accepted ended at amount far below the forecast.

With regard to profit, service related business has been strengthened and orders accepted and sales for engineering and operational management have shown solid growth. However, relative to the initial stage of network operation service establishment, cost to sales ratio was higher than previously planned.

Under this environment, current quarter (April 1, 2006 to December 31, 2006) business performance for orders accepted was 82,320M yen (4.7% increase from previous FY 3Q), sales was 76,078M yen (6.5% increase from previous FY 3Q), and end of the term backlog of unfilled orders was 40,202M yen (11.1% increase from previous 3Q). For sales based on Product Category, Network Integration Products and Network Computing Products (NI and NC) accounted for 50,376M yen (2.7% increase from previous 3Q), Media Integration (MI) accounted for 5,854M yen (25.6% increase from previous 3Q), and Service Integration (SI) accounted for 19,847M yen (11.9% increase from previous 3Q). With regard to profit, gross profit margin decreased (current 3Q was 22.8%, previous 3Q was 24.3%, indicating 1.5% decrease) and due to increase in selling and general administrative expenses, operating profit was 3,155M yen (39.2% decrease from previous 3Q), and ordinary profit was 3,148M yen (40.2% decrease from previous 3Q). Relative to accrual of 199M yen as expense for termination of relocation of business as extraordinary loss, current net income was 1,687M yen (45.7% decrease from previous 3Q).

Financial Status

In comparison to the previous 3Q, total assets at the end of the 3Q increased by 4,327M yen and ended at 79,342M yen. Significant factors for this included 500M yen increase in cash and deposits and securities (Negotiable deposits and commercial paper), 904M yen increase in notes receivable and accounts receivable, and 1,125M yen increase in inventories.

Due to increase in advance received, liabilities increased by 1,599M yen and ended at 15,771M yen.

In comparison to the previous FY, total assets decreased by 5,666M yen. Significant factors for this included 10,143M yen decrease in notes receivable and accounts receivable, 1,451M yen increase in cash and deposits and securities (negotiable deposits and commercial paper), and 2,453M yen increase in inventories. Mainly due to decrease in accounts payable, total liabilities decreased by 6,695M yen.

Current 3Q's cash flow from operating activities decreased by 3,514M yen, and there was an 4,882M yen income. Significant attributable factors for this included 2,217M yen decrease in net income before tax, 1,420M yen decrease in income from decrease in purchase liabilities. For cash flow based on investing activities, expense increased by 698M yen, and 2,611M yen was accrued as expense. For cash flow based on financing activities, there was a 125M yen decrease in expense and 818M yen was accrued as expense.

Forecast for the FY

Overall 4Q result is not expected to differ greatly from above Operating Results for 3Q. While business from large scale non-governmental companies and most significantly, service related companies is expected to be the driving force, business relating to telecom companies requires more careful consideration. Business from public related sector will continue to be competitive and price trend must be carefully analyzed.

Forecast for the FY is currently under readjustment and is expected to be announced within February.

Consolidated Financial Statements

(Consolidated Balance Sheet)

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

	End of current FY 3Q (as of Dec. 31, 2006)		End of previousFY 3Q (as of Dec. 31, 2005)		Variance		Previous FY edited Balance Sheet (as of Mar. 31, 2006)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
ASSETS		%		%		%		%
I Current assets	68,284	86.1	64,763	86.3	3,520	5.4	73,998	87.0
Cash and deposits	14,510		17,468		(2,958)	(16.9)	16,056	
Notes and accounts Receivable - trade	25,241		24,336		904	3.7	35,384	
Short-term investments	11,998		8,499		3,498	41.2	8,999	
Inventories	13,659		12,534		1,125	9.0	11,206	
Deferred income taxes	428		528		(100)	(18.9)	668	
Other current assets	2,448		1,471		976	66.4	1,683	
Allowance for doubtful accounts	(0)		(75)		74	(98.7)	(0)	
II Fixed assets	11,058	13.9	10,251	13.7	806	7.9	11,011	13.0
1. Tangible assets	5,255	6.6	4,905	6.6	349	7.1	5,128	6.1
Furniture, fixture and equipment	4,791		4,504		287	6.4	4,734	
Others	463		401		62	15.5	394	
2. Intangible assets	1,558	2.0	1,670	2.2	(111)	(6.7)	1,726	2.0
Consolidation adjustment	-		17		(17)	(100.0)	16	
Goodwill	13		-		13	-	-	
Other intangible assets	1,545		1,652		(107)	(6.5)	1,710	
3. Investment and other assets	4,243	5.3	3,675	4.9	568	15.5	4,156	4.9
Long-term investments	781		358		423	118.2	429	
Deferred income taxes	2,299		2,197		101	4.6	2,332	
Other assets	1,388		1,351		36	2.7	1,620	
Allowance for doubtful accounts	(226)		(233)		7	(3.0)	(226)	
Total assets	79,342	100.0	75,014	100.0	4,327	5.8	85,009	100.0

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

	End of current FY 3Q (as of Dec. 31, 2006)		End of previous FY 3Q (as of Dec. 31, 2005)		Variance		Previous FY edited Balance Sheet (as of Mar. 31, 2006)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
LIABILITIES		%		%		%		%
Current liabilities	15,666	19.8	13,958	18.6	1,708	12.2	22,252	26.1
Accounts payable - trade	8,445		8,559		(113)	(1.3)	(15,142)	
Short term loan	350		350		-	-	350	
Accrued expenses	746		719		26	3.8	1,362	
Accrued income taxes	45		39		5	15.2	1,206	
Advance received	4,909		-		4,909	-	-	
Allowance for bonuses	432		385		46	12.1	545	
Other current liabilities	737		3,904		(3,167)	(81.1)	3,645	
Long term liabilities	104	0.1	213	0.3	(109)	(51.3)	213	0.3
Long term accrued expenses	93		202		(108)	(53.5)	202	
Other long term liabilities	10		11		(1)	(14.1)	11	
TOTAL LIABILITIES	15,771	19.9	14,172	18.9	1,599	11.3	22,466	26.4
MINORITY INTERESTS								
Minority Interests	-	-	743	1.0	-	-	770	0.9
SHAREHOLDERS' EQUITY								
Capital stock	-	-	12,279	16.4	-	-	12,279	14.4
Additional paid-in capital	-	-	19,453	25.9	-	-	19,453	22.9
Accumulated earnings	-	-	28,466	37.9	-	-	30,140	35.5
Securities revaluation adjustments	-	-	(5)	(0.0)	-	-	(5)	(0.0)
Treasury stocks	-	-	(94)	(0.1)	-	-	(94)	(0.1)
Total shareholders' equity	-	-	60,099	80.1	-	-	61,772	72.7
Total liabilities, Minority interests, Shareholders' equity	-	-	75,014	100.0	-	-	85,009	100.0
Net Assets								
Shareholders' equity	62,607	78.9	-	-	-	-	-	-
1 . Capital stock	12,279	15.5	-	-	-	-	-	-
2 . Additional paid-in capital	19,453	24.5	-	-	-	-	-	-
3 . Accumulated earnings	30,969	39.0	-	-	-	-	-	-
4 . Treasury stocks	(94)	(0.1)	-	-	-	-	-	-
Revaluation and translation adjustments	192	0.2	-	-	-	-	-	-
1 . Securities revaluation adjustment	(3)	(0.0)	-	-	-	-	-	-
2 . Deferred charge from hedging instruments	196	0.2	-	-	-	-	-	-
Minority interests	770	1.0	-	-	-	-	-	-
Total net assets	63,571	80.1	-	-	-	-	-	-
Total liabilities and net assets	79,342	100.0	-	-	-	-	-	-

(2) Comparative consolidated income statement

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

	Current FY 3Q Apr. 1, 2006 to Dec. 31, 2006		Previous FY 3Q Apr. 1, 2005 to Dec. 31, 2005		Variance		Previous FY edited income statement Apr. 1, 2005 to Mar. 31, 2006	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Sales	76,078	100.0	71,447	100.0	4,630	6.5	107,383	100.0
Cost of goods sold	58,731	77.2	54,106	75.7	4,624	8.5	82,592	76.9
Gross profit on sales	17,347	22.8	17,340	24.3	6	0.0	24,790	23.1
Selling, general and administrative expense	14,191	18.7	12,149	17.0	2,042	16.8	17,038	15.9
Operating Profit	3,155	4.1	5,191	7.3	(2,036)	(39.2)	7,752	7.2
Non-operating income	75	0.1	90	0.1	(15)	(16.6)	99	0.1
Interest income	24		3		21	675.5	4	
Dividends	1		1		-	-	1	
Exchange gain on foreign currencies	-		20		(20)	(100.0)	22	
Dividend on group insurance	31		21		10	50.9	21	
Other income	17		44		(26)	(59.6)	50	
Non-operating expense	83	0.1	22	0.0	60	270.2	27	0.0
Interest expense	3		3		0	0.0	4	
Investment loss on equity method	48		0		48	-	1	
Issuing new shares expense	-		0		(0)	(100.0)	0	
Exchange loss on foreign currencies	14		-		14	-	-	
Commitment fee	6		7		(0)	(3.1)	9	
Operational spending loss	6		2		4	191.9	2	
Other loss	3		9		(6)	(64.5)	9	
Ordinary Profit	3,148	4.1	5,259	7.4	(2,111)	(40.2)	7,824	7.3
Extraordinary Profit	0	0.0	34	0.0	(34)	(98.0)	115	0.1
Reversal of allowance for doubtful receivables	0		25		(25)	(97.3)	106	
Gain on sales of fixed assets	-		8		(8)	(100.0)	8	
Gain on sales of investment securities	-		0		(0)	(100.0)	0	
Extraordinary Loss	223	0.3	152	0.2	71	46.9	161	0.2
Loss from removal of fixed assets	4		6		(1)	(23.0)	14	
Impairment loss	-		132		(132)	(100.0)	132	
Loss on sales of stocks of affiliated companies	-		14		(14)	(100.0)	14	
Loss from revaluation of investment securities	-		-		-	-	1	
Loss from relocation expenses of affiliated company	19		-		19	-	-	
Loss from termination of relocation of business	199		-		199	-	-	
Income before income taxes	2,925	3.8	5,142	7.2	(2,217)	(43.1)	7,778	7.2
Income taxes	1,235	1.6	1,922	2.7	(687)	(35.8)	2,858	2.6
Minority interests	2	0.0	110	0.1	(107)	(97.9)	136	0.1
Current net income	1,687	2.2	3,109	4.4	(1,421)	(45.7)	4,783	4.5

(3) Comparative consolidated cash flow statement

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

	Current FY 3Q Apr. 1, 2006 to Dec. 31, 2006	Previous FY 3Q Apr. 1, 2005 to Dec. 31, 2005	Previous FY edited cash flow statement Apr. 1, 2005 to Mar. 31, 2006
	Amount	Amount	Amount
Cash flow from operating activities:			
Current net income before taxes	2,925	5,142	7,778
Depreciation and amortization	2,170	1,991	2,833
Impairment loss	-	132	132
Amortization of consolidation adjustment	-	3	3
Amortization of goodwill	2	-	-
Increase or decrease in allowance for bonus	(112)	(109)	50
Decrease in allowance for doubtful accounts	(0)	(26)	(107)
Interest and dividends income	(25)	(4)	(5)
Equity in loss of affiliates	48	0	1
Interest payment	3	3	4
Gain from sale of investments	-	(0)	(0)
Loss from sale of affiliated company's stocks	-	14	14
Loss on revaluation of investment securities	-	-	1
Decrease of accounts receivable	12,150	13,571	2,227
Increase or decrease of inventories	(2,453)	(1,230)	97
Increase or decrease of accrued consumption tax receivable	127	(143)	(158)
Increase of other current assets	(325)	(190)	(424)
Increase or decrease of purchase liabilities	(6,698)	(6,245)	349
Decrease of accrued consumption tax payable	(42)	(357)	(361)
Increase or decrease of other current liabilities	(298)	(72)	329
Payment of executives' bonuses	(32)	(48)	(48)
Other	(163)	(156)	(100)
Sub-total	7,275	12,272	12,619
Interests and dividends received	23	4	5
Interest paid	(3)	(3)	(4)
Income taxes paid	(2,459)	(3,933)	(3,933)
Others	46	56	62
Net cash provided by operating activities	4,882	8,396	8,748
Cash flow from investing activities			
Expenditure from short-term loan	(0)	-	(1)
Proceeds from collection of short term loan	0	0	0
Purchase of tangible fixed assets	(2,065)	(1,713)	(2,546)
Purchase of intangible fixed assets	(284)	(221)	(267)
Purchase of investment securities	(278)	(74)	(143)
Proceeds from sell-off of investment securities	-	39	50
Proceeds from sale of affiliated company's stocks	-	110	110
Expenditure from long term loan	(5)	(5)	(5)
Proceeds from collection of long term loan	13	0	0
Expenditure from payment of initial investment	(3)	(4)	(5)
Proceeds from collection of initial investment	1	0	0

Others	10	(45)	(352)
Net cash provided by investing activities	(2,611)	(1,913)	(3,162)
Cash flow from financing activities:			
Dividends paid	(818)	(944)	(959)
Net cash provided by financing activities	(818)	(944)	(959)
Increase in cash and cash equivalents	1,451	5,538	4,627
Beginning balance of cash and cash equivalents	25,056	20,429	20,429
Ending balance of cash and cash equivalents	26,508	25,968	25,056

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

(Accounting policy for net assets in balance sheet)

From current 3Q period, the company adopted the “Accounting Standard for Presentation of Net Assets in Balance Sheet” (Corporate Accounting Standard No. 5, December 9, 2005) and the “Guidelines for Application of Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Corporate Accounting Standard Guidelines No. 8, December 9, 2005).

Total assets as presented previously would amount to 62,604M yen.

Changes in presentation method

(Balance sheet)

1. Although advance received had been included under others in current liabilities, as the total amount of advance received at the end of current 3Q period exceeded 5/100 of total liabilities and net assets, it has been separately itemized. Advance received at the end of previous consolidated interim period was 3,205M yen.

2. Item which had been recorded as consolidation adjustment in the previous FY 3Q has been presented as goodwill from current 3Q.

(Cash flow)

Item which had been recorded as amortization of consolidation adjustment in the previous FY 3Q has been presented as amortization of goodwill from current 3Q.

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

Orders accepted by product category

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

	Current FY 3Q Apr. 1, 2006 to Dec. 31, 2006		Previous FY 3Q Apr. 1, 2005 to Dec. 31, 2005		Previous consolidated FY Apr. 1, 2005 to Mar. 31, 2006	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
		%		%		%
Network equipment products	53,224	64.6	54,098	68.8	74,044	65.9
Network computing products	2,115	2.6	1,427	1.8	2,101	1.9
Media integration products	7,144	8.7	5,824	7.4	7,239	6.4
Service integration products	19,836	24.1	17,278	22.0	28,941	25.8
Total	82,320	100.0	78,628	100.0	112,327	100.0

Sales by product category

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

	Current FY 3Q Apr. 1, 2006 to Dec. 31, 2006		Previous FY 3Q Apr. 1, 2005 to Dec. 31, 2005		Previous consolidated FY Apr. 1, 2005 to Mar. 31, 2006	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
		%		%		%
Network equipment products	48,554	63.8	47,945	67.1	72,275	67.3
Network computing products	1,821	2.4	1,106	1.6	2,236	2.1
Media integration products	5,854	7.7	4,659	6.5	7,464	6.9
Service integration products	19,847	26.1	17,736	24.8	25,406	23.7
Total	76,078	100.0	71,447	100.0	107,383	100.0

Backlog of unfilled orders by product category

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

	End of current 3Q (as of Dec. 31, 2006)		End of previous 3Q (as of Dec. 31, 2005)		End of previous FY (as of Mar. 31, 2006)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
		%		%		%
Network equipment products	17,931	44.6	17,645	48.7	13,261	39.0
Network computing products	583	1.4	745	2.1	289	0.9
Media integration products	3,089	7.7	3,190	8.8	1,799	5.3
Service integration products	18,597	46.3	14,615	40.4	18,608	54.8
Total	40,202	100.0	36,196	100.0	33,960	100.0