



Financial Report for FY 2006 (ending March 2007)

May 9, 2007

Name of registered company: Net One Systems Co., Ltd.
 Location of stock listing: First Section of Tokyo Stock Exchange
 Stock Code Number: 7518
 (URL <http://www.netone.co.jp/index.html>)

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 Expected date of June 22, 2007 Expected date of dividend June 25, 2007
 ordinary general meeting of shareholders payment start
 Expected filing date June 25, 2007
 of annual report

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

1. Business Results for FY 2006 (April 1, 2006 to March 31, 2007)

(1) Consolidated Financial Results

(Percentage: increase/decrease against previous fiscal year)

	Sales		Operating Profit		Ordinary Profit		Current Net Income	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
FY ended March 2007	109,292	(1.8)	5,489	(- 29.2)	5,498	(- 29.7)	2,891	(- 39.5)
FY ended March 2006	107,383	(- 20.3)	7,752	(- 27.5)	7,824	(- 26.5)	4,783	(- 23.0)

	Current net income per Share		Current net income per share assuming full dilution		Ratio of current net income to net assets	Ratio of ordinary profit to total assets	Ratio of operating profit to total sales
	yen	sen	yen	sen	%	%	%
FY ended March 2007	5,241	81	_____	_____	4.6	6.5	5.0
FY ended March 2006	8,613	84	_____	_____	8.0	9.4	7.2

(reference) Equity in net earnings of affiliated companies

FY ended March 2007: (55) Million yen

FY ended March 2006: (1) Million yen

(2) Financial position

	Total assets	Net assets	Net assets ratio	Net assets per share	
	Million yen	Million yen	%	yen	sen
FY ended March 2007	84,601	64,647	75.5	115,715	08
FY ended March 2006	85,009	61,772	72.7	111,914	28

(reference) Net assets FY ended March 2007: 63,838M yen
 FY ended March 2006: - M yen

(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 2007	9,117	(3,245)	(1,175)	29,754
FY ended March 2006	8,748	(3,162)	(959)	25,056

2. Status of dividends

(Date of record)	Dividend per share			Total dividend (annual)	Dividend payout ratio (consolidated)	Dividend on equity (consolidated)
	Interim period	End of the term	Annual total			
	yen sen	yen sen	yen sen	Million yen	%	%
FY ended March 2006	750 00	750 00	1,500 00	827	17.4	1.4
FY ended March 2007	750 00	750 00	1,500 00	827	28.6	1.3
FY ending 2008 (forecast)	750 00	1,250 00	2,000 00		40.9	

(Note) Details of end of the term dividend for FY ending 2008 (forecast)

Commemorative dividend 500.00 yen

3. Forecast for the consolidated FY ending March 31, 2008 (April 1, 2007 to March 31, 2008)

(Percentage: increase/decrease against previous fiscal year or interim period)

	Sales	Operating profit	Ordinary profit	Current net income	Current net income per share
	Million yen %	Million yen %	Million yen %	Million yen %	yen sen
Interim period for FY ending March 2008	50,000 (-0.0)	1,800 (-5.4)	1,800 (-5.1)	1,000 (-8.4)	1,812 62
FY ending March 2008	112,000 (2.5)	4,700 (-14.4)	4,700 (-14.5)	2,700 (-6.6)	4,894 07

4. Others

(1) Changes to significant subsidiaries during the FY (changes to wholly owned specified subsidiaries affecting the scope of consolidation) none

(2) Changes to principle, procedure, methods of presentation for accounting for the creation of consolidated financial statements (indicated in changes to significant matters related to the creation of consolidated financial statements)

changes related to revision of accounting standard, etc. yes
changes other than none

(Note) For details, please refer to significant items regarding basis of creation of consolidated financial statements on page 24.

(3) Outstanding stocks (Common Stocks)

End of the term outstanding stocks (including treasury stocks)

FY ending March 2007 551,900

FY ending March 2006 551,900

End of the term treasury stocks

FY ending March 2007 211

FY ending March 2006 211

(Note) Please refer to "Per share information" on page 37 for basis of number of shares for calculation of current net income per share.

(Reference) Non-Consolidated Financial Results

1. Business Results for FY 2006 (April 1, 2006 to March 31, 2007)

(1) Non-consolidated financial results

(Percentage: increase/decrease against previous fiscal year)

	Sales		Operating profit		Ordinary profit		Current net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended March 2007	107,144	(1.6)	5,042	(-25.4)	5,119	(-25.3)	2,767	(-34.5)
FY ended March 2006	105,508	(-20.2)	6,759	(-30.1)	6,855	(-29.2)	4,226	(-25.5)

	Current net income per share		Current net income per share assuming full dilution	
	yen	sen	yen	sen
FY ended March 2007	5,015	53	_____	_____
FY ended March 2006	7,612	65	_____	_____

(2) Financial position

	Total Assets	Net Assets	Net Assets Ratio	Net Assets Per Share	
	Million yen	Million yen	%	yen	sen
FY ended March 2007	81,683	62,879	77.0	113,976	95
FY ended March 2006	81,754	60,934	74.5	110,402	44

(reference) Net assets

FY ended March 2007: 62,879M yen

FY ended March 2006: - M yen

2. Forecast for the non-consolidated FY ending March 31, 2008 (April 1, 2007 to March 31, 2008)

(% for the FY or interim period are ratio of increase or decrease against previous FY or interim period)

	Sales		Operating Profit		Ordinary Profit		Current Net Income		Current Net Income per Share	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	yen	sen
Interim period for FY ending March 2008	49,000	(- 0.1)	1,800	(- 9.1)	1,800	(- 10.5)	1,000	(- 13.5)	1,812	62
FY ending March 2008	110,000	(2.7)	4,500	(- 10.8)	4,500	(- 12.1)	2,600	(- 6.0)	4,712	81

(Note) The above forecast is based on currently available information and the actual business performance may differ in relation to various factors.

With regard to particulars related to above forecast, please refer to 1. Operating Results and Financial Status (1) Forecast for the next FY on page 5.

1. Operating results and financial status

(1) Operating results

(Conditions of current FY)

With regard to trends for orders accepted during current consolidated fiscal year (FY), new businesses from financial and service industries and auto-industry within general public company segment (7.1% increase from previous FY) showed increasing trend. However, electric products and software development industries showed further decrease in orders accepted.

Telecom and service provider (ISP) investment showed increasing trend within ISP sector (0.6% increase from previous FY). Decrease in telecom investments related to existing IP webs was covered by increase in investments in next generation network investments. With regard to public sector (21.9% decrease from previous FY), many of the new businesses were related to systems (system primarily comprised of PCs and servers) that partially included networking products and failure to receive orders due to increase in price competition increased in latter half of the FY. As a result, orders accepted for consolidated FY was 109,168M (2.8% decrease from previous FY or 3,158M yen decrease.)

Backlog of unfilled orders at the end of the term was 33,836M yen (0.4% decrease from previous FY or 123M yen decrease.)

Under this environment, sales was 109,292M yen (1.8% increase or 1,909M yen increase from previous FY.) Sales was comprised of 75,310M yen (2.6% decrease or 2,044M yen decrease from previous FY) of network products and 33,981M yen (13.2% increase or 3,953M yen increase from previous FY) of service business (operation and management, etc. including construction.)

With regard to profit, gross profit margin decreased by 0.7% (current consolidated FY was 22.4%, previous consolidated FY was 23.1%.) The significant factor for this was the investments, etc. required for service expansion including XOC (Expert Operation Center: Product Name.) In addition, due to increase in selling and general administrative expenses which was 18,946M yen (11.2% increase or 1,908M yen increase from previous FY) relative to increase in personnel cost, operating profit was 5,489M yen (29.2% decrease or 2,263M yen decrease from previous FY), and ordinary profit was 5,498M yen (29.7% decrease or 2,325M yen decrease from previous FY).

With regard to extraordinary loss, as 414M yen was accrued as loss from removal of fixed assets and expenses relating to termination of business relocation, current net income was 2,891M yen (39.5% decrease or 1,891M yen decrease from previous FY).

(Forecast for the next FY)

As regards non-governmental enterprises, the Company will continue to focus on market areas including financial, service and auto-industries and perform reallocation of resources to increase efficiency. Concurrently, the Company will aim to advance the service business to maintain and increase the Company's growth. As regards telecom and service provider (ISP) sector, investments for existing IP web is expected to continue to decrease. The Company aims to mitigate such decrease in sales through actively promoting sales related to next generation network and ISPs. As regards public related work, the Company may face difficulties with completion of some projects. However, as the number of prospective businesses is on the rise, the Company will continue to approach the healthcare industry and local governments to increase the sales.

Under this environment, with regard to consolidated business performance forecast for FY ending 2008 (April 1, 2007 to March 31, 2008) expected sales, operating profit, ordinary profit and current net income are 112,000M yen (network products, etc. 76,400M yen and service business 35,600M yen), 4,700M yen, 4,700M yen and 2,700M 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.

(2) Analysis regarding financial status

(Analysis regarding status of assets, liabilities, net assets and cash flow)

In comparison to the previous consolidated FY, total assets at the end of this consolidated FY decreased by 0.5% (408M yen decrease) and ended at 84,601M yen. Total assets was comprised of 73,701M yen (decrease of 0.4% or 296M yen from previous FY) of current assets and 10,899M yen (decrease of 1.0% or 111M yen from previous FY) of fixed assets. Total liabilities was 19,953M yen (decrease of 11.2% or 2,512M yen from previous FY). Total net assets was 64,647M yen.

Current assets decreased by 296M yen, as cash and deposits and marketable securities (negotiable deposits and commercial paper) increased by 4,697M yen, note receivables and account receivables -trade decreased by 4,430M yen relative to increase in amount collected from note receivables and account receivables, and inventories decreased by 622M yen relative to decrease in backlog of unfilled orders. Due to decrease in furniture, fixtures and equipment, fixed assets decreased by 111M yen. Liabilities decreased by 2,512M yen due to 2,870M yen decrease in accounts payable, etc. relative to decrease in purchase amount as of the end of the term. Net assets was 64,647M yen due to increase in accumulated earnings, etc.

Balance of cash and cash equivalents at the end of current consolidated FY was 29,754M yen. This indicated 4,697M yen increase (18.7% increase). This is comprised of 9,117M yen of cash flow from operating activities, 3,245M yen of cash flow from investing activities, and 1,175M yen of cash flow from financing activities.

For cash flow based on operating activities, income increased by 368M yen and ended at 9,117M yen. This is relative to 3,211M yen increase in income from amount collected from accounts receivable and 2,694M yen decrease in income from decrease in current net income before taxes. For cash flow from investing activities, there was a 3,245M yen expense relative to 83M yen increase in expense. This is mainly due to 169M yen increase in expense relative to acquisition of investment securities. For cash flow based on financing activities, there was a 215M yen increase in expense and ended at 1,175M yen of expense.

(Cash Flow reference trend)

	FY2003 (ending March 2004)	FY2004 (ending March 2005)	FY2005 (ending March 2006)	FY2006 (ending March 2007)
Net assets ratio	70.3%	71.8%	72.7%	75.5%
Net assets ratio for shares based on market value	316.4%	187.7%	157.1%	91.3%
Ratio of interest bearing liabilities to cash flow	— %	0.0%	0.0%	— %
Interest coverage ratio	—	3,888.8	1,969.0	1,905.0

Note:

1. Net assets ratio: Net assets/ Total assets
Net assets 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 was calculated using closing stock price at FY end * number of stocks issued at end of FY (excluding treasury stocks). For stock splits, the calculations were 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 regard to interest payment, interest payment amount in consolidated cash flow statement was used.
5. For FY with negative operating cash flow, or FY with no interest bearing-liabilities or interest payment, no calculations were made to ratio of interest bearing liabilities to cash flow and interest coverage ratio.

(3) Analysis of Operating Results and Financial Status

Analysis of Operating Results

(Sales)

With regard to Sales, there was a 1,909M yen increase compared to previous consolidated FY and ended at 109,292M yen. Although the sales of the network products, the Company's main line products, were not favorable relative to low facility investments for existing IP webs by telecom companies, due to 12.2% increase in service products such as maintenance and operation management consulting, total sales increased by 18.8%.

(Cost of goods sold and gross profit on sales)

Although there was increase in ratio of sales (2.4% increase from previous FY) for service product category which provides for higher gross profit margin, due to increase in outsourcing fee, during the current consolidated FY, sales cost ratio compared to previous FY increased by 0.7 points. As a result, gross profit on sales decreased by 354M yen and ended at 24,436M 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, office rental fees relative to expansion of business increased, and depreciation expense relative to total renewal of corporate system increased. As a result, selling, general and administrative expense increased by 1,908M yen (11.2% increase from previous FY), and operating profit decreased by 29.2% and ended at 5,489M yen.

(Non-operating income and expense, ordinary income)

Non-operating income was 99M yen and significant contributory factors included 44 M yen from interests income and 31M yen from dividend from group insurance.

On the other hand, non-operating expense increased by 62M yen and ended at 90M yen relative to 53M yen increase in equity losses of affiliates and 6M yen of currency exchange loss.

As a result, ordinary income decreased by 29.7% and ended at 5,498M yen.

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

Extraordinary profit for the current consolidated FY was 0M yen. On the other hand, extraordinary loss was 414 yen and included 199M yen as termination of business relocation, 134M yen as loss from removal of fixed assets which included removal of obsolete products and unnecessary evaluation and inspection products and 24M yen and 34M yen respectively relative to impairment process for loss on revaluation of investment securities and loss on revaluation of affiliated company's stock.

As a result, Current net income before taxes decreased by 34.6% from previous FY and ended at 5,084M yen.

(Tax expense, current net profit)

Tax expense including income tax current and income taxes deferred was 2,152M yen and contribution percentage of income taxes after applying tax effect accounting increased from 36.75% to 42.34%. Significant contributory factors for this included expiration of applicable period of tax exemption for tax system promoting IT investment at the end of the previous FY. This decreased the amount of tax credit. In addition, due to reporting 40M as minority shareholder income, current net income was 2,891M yen indicating 39.5% decrease from previous FY.

Analysis of financial status

(Current assets)

Current assets at the end of current consolidated FY decreased by 296M yen compared to the end of previous FY.

Significant factors for the increase are an 1,699M yen increase in cash and deposits, and an 2,997M yen increase in securities relative to surplus funds management (negotiable deposits and commercial paper.) On the other hand, significant factors for decrease are a 4,430M yen decrease in note receivables and account receivables relative to increase in amount collected from note receivables and account receivables, and a 622M yen decrease in inventories relative to decrease in backlog of unfilled orders.

(Fixed assets)

Fixed assets during current consolidated FY decreased by 111M yen compared to previous FY.

Significant factors for this included 136M yen decrease in book value of fixture, furniture and equipment relative to removal of obsolete products and unnecessary evaluation and inspection products.

(Liabilities)

Total liabilities at the end of current consolidated FY decreased by 2,512M yen compared to the end of previous consolidated FY.

Significant contributory factors include a 2,870M yen decrease in accounts payable relative to decrease in purchase amount at the end of the period.

(Net assets)

Relative to recording current net income before taxes, accumulated earnings increased by 2,033M yen relative to recording current net income before taxes. As a result, total net assets was 64,647M yen. Net assets ratio indicated 2.8 points rise and ended at 75.5%.

(4) Basic policy for profit sharing and dividends for current FY and interim period

Basic policy

The Company's basic policy established that from FY ending March 2008, the Company will shift to put greater emphasis on dividend payout and the Company aims for 20% or above consolidated dividend payout. However, the Company has revised the basic policy as follows:

The Company's basic policy is to aim to maximize shareholder profit through increasing corporate value. The Company aims to improve shareholders' equity which is the basis for sustaining and strengthening expansion and growth of management structure, and at the same time provide long-term and stable shareholder profit that appropriately reflects the business performance. Under this basic policy, the Company aims to provide 30% consolidated dividend payout for FY2011 consolidated period. For the time being, through considering business performance, the Company proposes for 20% or above consolidated dividend payout.

Current FY dividend (FY ending March 2007)

An interim dividend of 750 yen per share was issued during current FY. At the end of FY ending March 2007, the Company plans 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 28.6% (consolidated).

Next FY (FY ending March 2008)

With regard to next FY common dividend, the Company plans to provide 750 yen per share dividend for both interim period dividend and end of the year dividend for an annual total of 1,500 yen. In addition, for shareholders as of the end of the period at FY ending March 2008, the Company plans to provide 500 yen per share dividend as commemorative dividend for 20th anniversary of the Company. In this case, by combining common dividend and commemorative dividend, per share dividend will total 2,000 yen annually.

(5) Business risks

With regard to business related risks that may affect the business performance, from the perspectives of customer base and internal control, etc. base, following scenarios are identified. In reexamining the previously identified business risks, seasonal fluctuation of business performance with concentrated sales in September and March and need for operating fund have been deleted as the Company has achieved leveling of quarterly sales and improved collection of account receivables.

Business transactions with top 10 customers

With regard to breakdown of sales based on customers (FY ending March 2007) 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.

Competition

Relative to rapid expansion of network related market, competition may intensify 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 trust. 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.

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.

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 50th percentile of the sales ratio; in the future, the Company aims to continue offering competitive products in multi-vendor environment.

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 weaker 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.

Compliance

To ensure all personnel working at the Company (including dispatched employees and outsourcees) comply with laws and corporate rules, the Company undertakes to educate its personnel by way of education and seminars and for non-employees, the Company confirms compliance by way of contracts. In addition, the Company performs monitoring to track the status of compliance. However, misconduct such as non-compliance with the laws, could cause degradation of trust from customers and outside stakeholders.

Information leakage

The 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, and strive to raise awareness for information management to the Group companies and partner companies.

Management of outsourcees

The Company outsources work to partnering companies to provide the Company's network solution to the customers. The Company rigorously confirms the contract to ensure compliance with the laws. However, when problems are found with outsourcees, etc., not only will the Company face legal charges, but also face severe loss of trust from customers. As a result, there may also be decrease in sales.

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.

2. Status of Net One Systems group

As no significant changes have been made to “business organization diagram (description of business)” and “status of affiliated companies”, subsequent to presentation of Annual Security Report (submitted on June 30, 2006), they have been omitted.

3. Basic Management Policies

(1) 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.

Permeation of computer networks has spread at an immense speed and currently, most individual and corporate users have access to the Internet. Users' needs have shifted from a simple connection to the Internet to services using network technologies. The Company's customer needs are more diversified and complicated. The Company's customer needs include integration of IP telephony, broadcasting and telecommunications to achieve video delivery, and creation of corporate IT system with network, voice and data integration.

With the aim of contributing to the network system as a basis of social infrastructure, in addition to network creation which has been the Company's core business, the Company endeavors to expand to become a network service company also providing high value added network system maintenance and operation.

(2) Management index aimed

The Company aims to establish quantitative evaluation (profit = added value) for measuring the customer satisfaction. This is relative to multiple unpredictable factors as facility investments for large scale next generation network which have significant impact on the Company's business performance fluctuation and shifting from former corporate internal figures using orders accepted and sales to ordinary income ratio to net sales. The Company specifically aims to achieve 1% annual improvement for ordinary income ratio to net sales.

(3) Mid to long term corporate management strategy

To become a network service provider,

- i. The Company will shift its business model focusing on sales of network products to one including service for networked system features.
- ii. Clarify the corporate domain, strengthen network integration, network platform, security and network application to expand to become a company capable of providing comprehensive network infrastructure.

Under above policy, the corporate domain will expand from information industry to information

and communication industry. The Company's business model will shift to encompass provision of services to a customer's comprehensive network infrastructure and give full consideration to system features embedded in the customer network. The Company's business has focused on sales of network products and related services. In addition to this existing business realm, new added values are introduced to provide consultation centering on network technology and continual rotating services encompassing everything from creation to operation support based on comprehensive knowledge of services. Based on this, by establishing new system (network platform) such as security and storage server that uses new network technologies, and developing IP applications, the Company aims to realize efficient and effective usage of network services by the customers.

To realize this vision, business goals for short term, mid-term and long term have been established as follows.

Short-term

In addition to continued strengthening of network integration business, the Group Company's biggest advantage, the Company will systemize and reorganize the added services. Relative to expansion of network business realm, the Company undertakes to establish network platform, security and network application businesses which will be required for the future network framework, and expand product line up through searching and examining new products.

Mid-term

The Company will continue next generation network research and development. Relative to expansion of network integration business, the Company undertakes to develop network platform, security, and network application businesses. Through sales of new products, the Company undertakes to develop an organization capable of providing network as a system. In addition, by developing a corporate organization also capable of providing above services to network framework not provided by the Company, the Company undertakes to enter into service business that includes a customer's outsourcing needs.

Long-term

By further strengthening the corporate organization for providing planning, creation and maintenance management of a customer's network framework, the Company aims to create autonomous and self-contained network framework for a customer. In addition to aiming to increase the value of value added networks of the customers, the Company aims to promote integrated service business to ensure efficiency in asset usage and further reduction in cost.

(4) Issues to be addressed by the Company

In order to fulfill mid to long term management strategies, it is essential for the Company to strengthen sales force to match customer type (general non-governmental companies, Telecom companies, or central governmental agencies) and geographical needs, search for new products, improve service menu and reorganize corporate framework.

With regard to securing human resources, with the trend of integrating a part of the system platform to network platform, increase in the stable operation and reliability of the network used have become a crucial factor. Under this environment, the Company must urgently recruit and educate sales force and engineers with expertise in network technology and knowledge of the needs of a particular customer.

Furthermore, as a method of improving profit margin, the Company undertakes to create additional fee service menu and periodically restructure the Company to provide quality service to the satisfaction of the customers. Specifically, Expert Operation Center (XOC) under development from 2006 is identified as the core business and requires facility investments as well as increase in human resources.

With regard to reorganization of corporate framework, information framework must be reorganized to enable knowledge transfer of technology information and failure information to further promote standardization of technology and improvement of quality.

To meet these needs, proactive investment in development of human resources and development of new

technologies to create corporate structure capable of meeting detailed needs of the customers and enhance management of compliance with laws and corporate rules to promote corporate reliability are required.

Comparative Consolidated Balance Sheet

(unit: rounded down to the nearest million yen)

	End of previous FY (as of March 31, 2006)			End of current FY (as of March 31, 2007)			Variance
	Amount		Ratio	Amount		Ratio	
			%			%	
ASSETS							
Current Assets		73,998	87.0		73,701	87.1	(296)
Cash and deposits		16,056			17,756		1,699
Notes and accounts receivable - trade		35,384			30,954		(4,430)
Short-term investments		8,999			11,997		2,997
Inventories		11,206			10,584		(622)
Deferred income taxes		668			636		(31)
Others current assets		1,683			1,773		90
Allowance for doubtful receivables		(0)			(0)		(0)
Fixed Assets		11,011	13.0		10,899	12.9	(111)
Tangible assets		5,128	6.1		5,061	6.0	(66)
Buildings	767			917			
Total depreciation	(375)	391		(454)	462		70
Furniture, fixtures and equipment	16,032			17,918			
Total depreciation	(11,298)	4,734		(13,321)	4,597		(136)
Lease assets	139			3			
Total depreciation	(137)	2		(2)	1		(0)
Other intangible assets		1,726	2.0		1,598	1.9	(127)
Consolidation		16			-		(16)
Adjustment account							
Goodwill		-			12		12
Other assets		1,710			1,586		(124)
Investment and other assets		4,156	4.9		4,238	5.0	82
Investment securities		429			746		316
Long-term investments		23			11		(12)
Deferred income taxes		2,332			2,351		19
Other assets		1,596			1,355		(241)
Allowance for doubtful receivables		(226)			(225)		0
Total assets		85,009	100.0		84,601	100.0	(408)

Comparative Consolidated Balance Sheet

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

	End of current FY (as of March 31, 2006)		End of current FY (as of March 31, 2007)		Variance
	Amount	Ratio	Amount	Ratio	
		%		%	
LIABILITIES					
Current liabilities	22,252	26.1	19,850	23.5	(2,402)
Accounts payable - trade	15,142		12,272		(2,870)
Short-term loans	350		-		(350)
Accrued expenses	1,362		1,117		(244)
Accrued income taxes	1,206		895		(311)
Allowance for bonuses	545		637		92
Allowance for bonuses for executives	-		22		22
Other current liabilities	3,645		4,904		1,258
Long term liabilities	213	0.3	103	0.1	(109)
Long-term accrued expenses	202		93		(108)
Other long-term liabilities	11		9		(1)
TOTAL LIABILITIES	22,466	26.4	19,953	23.6	(2,512)
MINORITY INTERESTS					
Minority interests	770	0.9	-	-	-
SHAREHOLDERS' EQUITY					
Capital stock	12,279	14.4	-	-	-
Additional paid-in capital	19,453	22.9	-	-	-
Accumulated earnings	30,140	35.5	-	-	-
Securities revaluation adjustment	(5)	(0.0)	-	-	-
Treasury stocks	(94)	(0.1)	-	-	-
Total shareholders' equity	61,772	72.7	-	-	-
Total liabilities, minority interests, shareholders' equity	85,009	100.0	-	-	-
Net assets					
Shareholders' equity	-	-	63,811	75.4	-

Capital stock	-	-	12,279	14.5	-
Additional paid-in capital	-	-	19,453	23.0	-
Accumulated earnings	-	-	32,173	38.0	-
Treasury stocks	-	-	(94)	(0.1)	-
Revaluation and translation adjustments	-	-	26	0.0	-
Securities revaluation adjustment	-	-	(2)	(0.0)	-
Deferred charge from hedging instruments	-	-	29	0.0	-
Minority interests	-	-	808	1.0	-
Total net assets	-	-	64,647	76.4	-
Total liabilities and net assets	-	-	84,601	100.0	-

Comparative consolidated income statement

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

	Previous FY April 1, 2005 to March 31, 2006		Current FY April 1, 2006 to March 31, 2007		Variance
	Amount	Ratio	Amount	Ratio	
		%		%	
Sales	107,383	100.0	109,292	100.0	1,909
Cost of goods sold	82,592	76.9	84,856	77.6	2,263
Gross profit on sales	24,790	23.1	24,436	22.4	(354)
Selling, general and administrative expense	17,038	15.9	18,946	17.4	1,908
Operating profit	7,752	7.2	5,489	5.0	(2,263)
Non-Operating Income	99	0.1	99	0.1	0
Interest Income	4		44		40
Dividends	1		1		-
Income from work from affiliated companies	-		3		3
Exchange gain on foreign currencies	22		-		(22)
Dividend from group insurance	21		31		10
Other Income	50		18		(32)
Non-operating expense	27	0.0	90	0.1	62
Interest expense	4		4		(0)
Investment loss on equity method	1		55		53
Issuing new shares expense	0		-		(0)
Exchange loss on foreign currencies	-		6		6
Commitment fee	9		9		(0)
Investment operation loss	2		10		8
Other loss	9		5		(4)
Ordinary profit	7,824	7.3	5,498	5.0	(2,325)
Extraordinary profit	115	0.1	0	0.0	(115)
Reversal of allowance for doubtful receivables	106		0		(105)

Gain on sales of fixed assets	8		-		(8)
Gain on sales of investment securities	0		-		(0)
Extraordinary loss	161	0.2	414	0.3	253
Loss from removal of fixed assets	14		134		120
Impairment loss	132		-		(132)
Loss from sale of investment securities	-		2		2
Loss on sales of stocks of affiliated companies	14		-		(14)
Loss from revaluation of investment securities	1		24		23
Loss on revaluation of affiliated company's stocks	-		34		34
Loss from relocation of affiliated company	-		19		19
Loss from termination of business relocation	-		199		199
Income before income taxes	7,778	7.2	5,084	4.7	(2,694)
Income taxes current	3,241	3.0	2,162	2.1	(1,078)
Income taxes deferred	(382)	(0.4)	(9)	(0.0)	372
Minority interests	136	0.1	40	0.0	(96)
Current net income	4,783	4.5	2,891	2.6	(1,891)

Comparative Consolidated Surplus Statement and Consolidated Statements of Changes in Shareholders' Equity

1. Comparative Consolidated Surplus Statement

(unit: rounded down to the nearest million yen)

	Current FY April 1, 2006 to March 31, 2007
	Amount
ADDITIONAL PAID-IN CAPITAL	
Beginning balance of Additional Paid-In Capital	19,453
Ending balance of Additional Paid-In Capital	19,453
ACCUMULATED EARNINGS	
Beginning balance of Accumulated Earnings	26,368
Accumulated Earnings increase	4,783
Current Net Income	4,783
Accumulated Earnings decrease	1,011
Dividend	965
Executives' bonuses	46
Ending balance of Accumulated Earnings at the end of FY	30,140

2. Consolidated statement of changes in shareholders' equity

April 1, 2006 to March 31, 2007

(unit: rounded down to the nearest million yen)

	Shareholders' equity				
	Capital stock	Additional paid-in capital	Accumulated earnings	Treasury stocks	Total shareholders' equity
Balance as of March 31, 2007	12,279	19,453	30,140	(94)	61,778
Changes during the period					
Dividends from accumulated earnings (Note)			(413)		(413)
Dividends from accumulated earnings (mid-term)			(413)		(413)
Executive bonuses (Note)			(30)		(30)

Net income for the period			2,891		2,891
Changes (net) in items other than shareholders' equity					
Total changes during the period	-	-	2,033	-	2,033
Balance as of March 31, 2007	12,279	19,453	32,173	(94)	63,811

	Revaluation and translation adjustments			Minority interests securities revaluation adjustment	Total net assets deferred charges from hedging instruments
	Securities revaluation adjustment	Deferred charges from hedging instruments	Total revaluation and translation adjustments		
Balance as of March 31, 2007	(5)	-	(5)	770	62,542
Changes during the period					
Dividends from accumulated earnings (Note)					(413)
Dividends from accumulated earnings (mid-term)					(413)
Executives bonuses (Note)					(30)
Net income for the period					2,891
Change (net) in items other than shareholders' equity	2	29	32	38	70
Total changes during the period	2	29	32	38	2,104
Balance as of March 31, 2007	(2)	29	26	808	64,647

(Note) These are items under plan for appropriation of earnings in ordinary general meeting of shareholders held in June 2006.

Comparative Consolidated Cash Flow Statement

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

	Previous FY April 1, 2005 to March 31, 2006	Current FY April 1, 2006 to March 31, 2007	Variance
	Amount	Amount	Amount
Cash flow from operating activities:			
Current net income before taxes	7,778	5,084	(2,694)
Depreciation and amortization	2,833	3,021	187
Impairment loss	132	-	(132)
Amortization of consolidation adjustment	3	-	(3)
Amortization of goodwill	-	3	3
Increase in allowance for bonus	50	92	41
Increase in allowance for executives' bonus	-	22	22
Decrease in allowance for doubtful accounts	(107)	(0)	106
Interests and dividends income	(5)	(45)	(40)
Equity in losses of affiliates	1	55	53
Interest payment	4	4	(0)
Gain from sale of investment securities	(0)	-	0
Loss from removal of fixed assets	14	134	120
Loss from sales of investment securities	-	2	2
Loss from sale of affiliated company's stocks	14	-	(14)
Loss on revaluation of investment securities	1	24	23
Loss on revaluation of affiliated company's stocks	-	34	34
Decrease in accounts receivable	2,227	5,439	3,211
Decrease in inventories	97	622	524
Increase or decrease of accrued consumption tax receivable	(158)	158	317
Increase of other current assets	(424)	(208)	216
Increase or decrease of purchase liabilities	349	(2,873)	(3,223)
Increase or decrease of accrued consumption tax payable	(361)	131	492
Increase or decrease of other current liabilities	329	(49)	(379)
Payment for executives' bonuses	(48)	(32)	16
Others	(114)	(117)	(2)
Sub-total	12,619	11,504	(1,114)
Interests and dividends received	5	44	39
Interest paid	(4)	(4)	(0)
Income taxes paid	(3,933)	(2,472)	1,461
Others	62	45	(17)
Net cash provided by operating activities	8,748	9,117	368
Cash flow from investing activities:			
Expenditure for short term loan	(1)	-	1
Proceeds from collection of short term loan	0	-	(0)
Expenditure from purchase of tangible fixed assets	(2,546)	(2,559)	(13)
Expenditure from purchase of intangible fixed assets	(267)	(392)	(124)
Expenditure from purchase of investment securities	(143)	(313)	(169)
Proceeds from Sell-off of investment securities	50	0	(49)
Proceeds from sales of affiliated company stocks	110	-	(110)
Expenditure from loan	-	(11)	(11)
Proceeds from collection of loan	-	23	23
Expenditure from long term loan	(5)	-	5
Proceeds from collection of long term loan	0	-	(0)

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Expenditure from payment of initial investment	(5)	(3)	1
Proceeds from collection of initial investment	0	1	1
Others	(352)	10	363
Net cash used in investing activities	(3,162)	(3,245)	(83)
Cash flow from financing activities:			
Net decrease in short-term loans	-	(350)	(350)
Dividends paid	(959)	(825)	134
Net cash provided by (used in) financing activities	(959)	(1,175)	(215)
Net increase (decrease) in cash and cash equivalents	4,627	4,697	70
Beginning balance of cash and cash equivalents	20,429	25,056	4,627
Ending balance of cash and cash equivalents	25,056	29,754	4,697

Significant items regarding 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

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

Name of major consolidated subsidiaries Tennoz Initiative Inc.

Net One Systems (Shanghai) Co., Ltd.

(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 documents.

2. Matters related to application of equity method

(1) Number of affiliated company applying equity method 2 companies

Name of company

SkyCom Corporation

JBS Technology Co., Ltd.

JBS Technology Co., Ltd. has been included under affiliated company applying equity method from current consolidated FY relative to the acquisition of the company's shares in April 2006.

(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 documents, 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

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 Furniture, fixtures and equipment 2-20 years Lease assets 6 years
Intangible 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 bonuses

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

Allowance for bonuses for executives

Expenditure from payment of bonus to executives 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 goodwill and negative goodwill

Goodwill and negative goodwill are amortized over five (5) years using the straight line method.

7. 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 to significant matters related to the creation of consolidated financial statements

(Accounting policy for bonus for executives)

From current consolidated FY, the company adopted the "Accounting Standard for Bonuses for Executives" (Corporate Accounting Standard No.4, November 29, 2005). Relative to this change, operating profit, ordinary profit and current net income before taxes each decreased by 22M yen.

(Accounting policy for net assets in balance sheet)

From current consolidated FY, 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 63,809M yen.

As of the current FY, net assets in consolidated financial statements have been presented using according to the revised rules pertaining to consolidated financial statements.

(Changes in presentation methods)

(Balance sheet)

Items recorded as consolidation adjustment in previous FY financial statements, has been presented as goodwill as of the current FY.

(Consolidated cash flow statement)

1. Items recorded as depreciation of consolidation adjustment amount, in the previous FY have been presented as depreciation of goodwill as of the current FY.

2. Expenditure for short term loan, and proceeds from collection of short term loan, as well as expenditure for long term loan, and proceeds from collection of long term loan included in cash flows from investing activities in previous consolidated FY has been combined and indicated as expenditure from loan and proceeds from loan from current consolidated FY due to decrease in monetary significance of individual accounts.

Following indicates the current consolidated FY accounts presented in the manner in previous consolidated FY.

Expenditure for short term loan	(1M) yen
Proceeds from collection of short term loan	0
Expenditure for long term loan	(10M) yen
Proceeds from collection of long term loan	23M yen

(Matters Related to Consolidated Balance Sheet)

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

Previous Consolidated FY (as of March 31, 2006)	Current Consolidated FY (as of March 31, 2007)																												
<p>(1) Items regarding unconsolidated subsidiary and affiliated companies</p> <table border="1"> <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> <p>(2) Overdraft contract and loan commitment contract</p> <p>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> <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> <p>(3) Type and number of outstanding shares</p> <table> <tr> <td>Type of outstanding shares</td> <td style="text-align: right;">Common Shares</td> </tr> <tr> <td>Number of outstanding shares</td> <td style="text-align: right;">551,900 shares</td> </tr> </table> <p>(4) Type and number of repurchased shares</p> <table> <tr> <td>Type of Repurchased Stocks</td> <td style="text-align: right;">Common Shares</td> </tr> <tr> <td>Repurchased Stocks</td> <td style="text-align: right;">211 shares</td> </tr> </table>	Investment securities (stocks)	216	(Investment and Other Assets) Others (Investments)	104	Maximum amount of the overdraft and loan commitment	29,200	Amount loaned	-	End balance	29,200	Type of outstanding shares	Common Shares	Number of outstanding shares	551,900 shares	Type of Repurchased Stocks	Common Shares	Repurchased Stocks	211 shares	<p>(1) Items regarding unconsolidated subsidiary and affiliated companies</p> <table border="1"> <tr> <td>Investment securities (stocks)</td> <td style="text-align: right;">279</td> </tr> <tr> <td>(Investment and Other Assets) Others (Investments)</td> <td style="text-align: right;">104</td> </tr> </table> <p>(2) Overdraft contract and loan commitment contract</p> <p>In order to efficiently procure operating fund, overdraft contract and loan commitment has been signed with 4 company banks. End of term balance for unused credit is as follows.</p> <table> <tr> <td>Maximum amount of the overdraft and loan commitment</td> <td style="text-align: right;">21,200</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;">21,200</td> </tr> </table> <p>(3)</p> <p>(4)</p>	Investment securities (stocks)	279	(Investment and Other Assets) Others (Investments)	104	Maximum amount of the overdraft and loan commitment	21,200	Amount loaned	-	End balance	21,200
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(Consolidated income statements)

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

Previous Consolidated FY April 1, 2005 to March 31, 2006		Current Consolidated FY April 1, 2006 to March 31, 2007	
(1)	Expenses and amounts for major items under Selling, General and Administrative Expenses	(1)	Expenses and amounts for major items under Selling, General and Administrative Expenses
	Allowance for Compensation		Allowance for Compensation
	6,846		7,542
	Allocation of Allowance for Bonus		Allocation of Allowance for Bonus
	369		440
	Rental Expense		Rental Expense
	1,539		22
	Expense for Depreciation		Expense for Depreciation
	962		1,797
	Amount for Consolidation Adjustment		Amount for Consolidation Adjustment
	3		1,236
	Depreciation		Depreciation
			Amortization of goodwill (Note)
			3
			(Note) Items recorded as consolidation adjustment has been presented as goodwill as of the current FY
(2)	Total Research and Development Expense included in General and Administrative Expenses.	(2)	Total Research and Development Expense included in General and Administrative Expenses.
	Research and Development Expense		Research and Development Expense
	2,057		1,956
(3)	Items under Gain on Sales of Fixed Assets	(3)	_____
	Land		
	8		
(4)	Items under Loss from Removal of Fixed Assets	(4)	Items under Loss from Removal of Fixed Assets
	Buildings and Structures		Buildings and Structures
	2		114
	Tools, Fixtures, and Equipment		Intangible Fixed Assets (Others)
	11		19
	Intangible Fixed Assets (Others)		
	0		
	<u>Total</u>		<u>Total</u>
	14		134

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

Previous Consolidated FY April 1, 2005 to March 31, 2006	Current Consolidated FY April 1, 2006 to March 31, 2007								
<p>(5) Impairment Loss</p> <p>During current consolidated FY, our Group has applied Impairment Loss to the following assets</p> <table border="1" data-bbox="244 465 815 624"> <thead> <tr> <th>Location</th> <th>Purpose</th> <th>Type</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Suginami-Ku, Tokyo</td> <td>Rental parking lot</td> <td>Land</td> <td>132</td> </tr> </tbody> </table> <p>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. 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. 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	<p>(5) _____</p>
Location	Purpose	Type	Amount						
Suginami-Ku, Tokyo	Rental parking lot	Land	132						

(Matters related to consolidated statement of change in shareholders' equity)

Current FY (April 1, 2006 to March 31, 2007)

1. Items regarding types and number of issued shares and types and number of treasury shares as of the end of consolidated FY

	Number of shares at the end of previous FY	Number of shares increased during the current FY	Number of shares decreased during the current FY	Number of shares at the end of the current FY
Issued stocks				
Common stocks	551,900	-	-	551,900
Total	551,900	-	-	551,900
Treasury stocks				
Common stocks	211	-	-	211
Total	211	-	-	211

2. Items regarding stock options and warrants

There are no applicable shares.

3. Items regarding dividends

(1) Cash dividends paid

Date of declaration	Types of shares	Total cash dividends (M yen)	Cash dividend per share (yen)	Date of record	Effective date
June 23, 2006 Ordinary general meeting of shareholders	Common stocks	413	750	March 31, 2006	June 23, 2006
November 7, 2006 Board of directors' meeting	Common stocks	413	750	September 30, 2006	November 30, 2006

(2) Among the dividends within current consolidated FY, those having effective date in next consolidated FY

Expected date of declaration	Types of shares	Total cash dividends (M yen)	Source of dividends	Cash dividend per share (yen)	Date of record	Effective date
June 22, 2007 Ordinary general meeting of shareholders	Common stocks	413	Accumulated earnings	750	March 31, 2007	June 25, 2007

(Matters related to Consolidated Cash Flow)

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

Previous Consolidated FY April 1, 2005 to March 31, 2006	Current Consolidated FY April 1, 2006 to March 31, 2007
The relationship between cash and cash equivalents in balance at the end of FY and amounts indicated in items in Consolidated Balance Sheet.	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)		(as of March 31, 2007)	
Cash and Deposit Account	16,056	Cash and Deposit Account	17,756
Short-term Investment expected to be redeemed within 3 months of acquisition (securities)	8,999	Short-term Investment expected to be redeemed within 3 months of acquisition (securities)	11,997
	<u>25,056</u>	Cash and Cash Equivalents	<u>29,754</u>
Cash and Cash Equivalents			

(Segment Information)

1. Segment information by business category

Previous consolidated FY (April 1, 2005 to March 31, 2006) and current consolidated FY (April 1, 2006 to March 31, 2007)

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, 2005 to March 31, 2006) and current consolidated FY (April 1, 2006 to March 31, 2007)

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, 2005 to March 31, 2006) and current consolidated FY (April 1, 2006 to March 31, 2007)

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

(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, 2006)	Current Consolidated FY (as of March 31, 2005)
Deferred income tax assets (current)		
Business tax payable	130	82
Allowance for bonuses	221	259
Loss on disposal of and devaluation loss on inventories	138	103
Others	177	211
Total deferred income tax assets (current)	<u>668</u>	<u>656</u>
Deferred income tax liabilities (current)		
Gain or loss on deferred hedge	-	(20)
Others	(0)	(0)
Total deferred income tax liabilities (current)	<u>(0)</u>	<u>(20)</u>
Total net deferred income tax assets (current)	<u>668</u>	<u>636</u>
Deferred income tax assets (non-current)		
Allowance for depreciation of tools, fixtures and equipment	1,578	1,701
Software fee	246	273
Allowance for doubtful receivables	53	13
Outstanding retirement benefit for executives	82	38
Loss from revaluation of investment securities	179	203
Net unrealized gain or loss on other securities	3	1
Others	192	120
Total net deferred income tax assets (non-current)	<u>2,337</u>	<u>2,353</u>
Deferred income tax liabilities (non-current)		
Reserve for special depreciation	(5)	(1)
Total deferred income tax liabilities (non-current)	<u>(5)</u>	<u>(1)</u>
Total net deferred income tax liabilities (non-current)	<u>2,332</u>	<u>2,351</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, 2006)	Current Consolidated FY (as of March 31, 2007)
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Statutory effective tax rate (adjustment)	40.69 (%)	Explanatory note has been omitted 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.
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	
	<u> </u>	

(Matters related to Marketable Securities)

(Previous 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 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 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	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				
(1) Government/ local government bonds, etc.	-	-	-	-
(2) Corporate bond	-	-	-	-
(3) Others	-	-	-	-
2. Others	-	-	-	-
	8,999			
Total	8,999	-	-	-

(Current Consolidated FY) (as of March 31, 2007)

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, 2006 to March 31, 2007)

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

Sales amount	Total gain on sales	Total loss on sales
0	-	2

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	466
Commercial paper	6,997
Negotiable deposit	5,000

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	-	-	-	-
	11,997			
Total	11,997	-	-	-

(Per share information)

Previous consolidated FY April 1, 2006 to March 31, 2007	Current consolidated FY April 1, 2006 to March 31, 2007
Net assets amount per share 111,914.28 yen	Net assets amount per share 115,715.08 yen
Current net income per share 8,613.84 yen	Current net income per share 5,241.81 yen
Net income per share assuming full dilution is not indicated as there were no dilutive shares.	Net income per share assuming full dilution is not indicated as there were no dilutive shares.

(Note) 1 Basis for calculation of net assets amount per share is as follows.

	End of the previous consolidated FY (March 31, 2006)	End of the current consolidated FY (March 31, 2007)
Total net assets (Million yen)	-	64,647
Amount of deduction from total net assets (Million yen)	-	808
(Minority interests)	(-)	(808)
Total assets (Million yen) related to common stocks at the end of the term	-	63,838

Number of common stocks used for the calculation of net assets per share	-	551,688
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(Note) 2 Basis for calculation of current net assets amount per share is as follows.

	Previous consolidated FY (April 1, 2005 to March 31, 2006)	Current consolidated FY (April 1, 2006 to March 31, 2007)
Current net assets (Million yen)	4,783	2,891
Amount not included in common stocks	30	-
(Amount of executives' bonuses from appropriation of earnings)	(30)	(-)
Current net income related to common stocks (Million yen)	4,752	2,891
Average number of stocks during the term	551,688	551,688
Details of the residual shares not included in calculation of net income per share assuming full dilution	Stock options (resolved in ordinary general meeting of shareholders dated June 27, 2002) (Number of shares for the purpose of stock options: 12,212)	Stock options (resolved in ordinary general meeting of shareholders dated June 27, 2002) (Number of shares for the purpose of stock options: 11,004)

(Omitting disclosure)

Notable matters regarding lease transactions, derivative transactions, allowance for retirement benefits, and stock options, etc., have been omitted as their disclosure within financial statements is not considered significant.

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, 2005 to March 31, 2006		Current Consolidated FY April 1, 2006 to March 31, 2007		Variance	
	Amount	Ratio	Amount	Amount	Ratio	Amount
		%		%		%
Network Integration Products	74,044	65.9	66,964	61.3	(7,080)	(9.6)
Network Computing Products	2,101	1.9	2,519	2.3	418	19.9
Media Integration Products	7,239	6.4	9,618	8.8	2,378	32.9
Service Integration Products	28,941	25.8	30,066	27.6	1,124	3.9
Total	112,327	100.0	109,168	100.0	(3,158)	(2.8)

Sales by product category

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

	Previous Consolidated FY April 1, 2005 to March 31, 2006		Current Consolidated FY April 1, 2006 to March 31, 2007		Variance	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
		%		%		%
Network Integration Products	72,275	67.3	69,574	63.7	(2,700)	(3.7)
Network Computing Products	2,236	2.1	2,451	2.2	215	9.6
Media Integration Products	7,464	6.9	8,750	8.0	1,285	17.2
Service Integration Products	25,406	23.7	28,516	26.1	3,109	12.2
Total	107,383	100.0	109,292	100.0	1,909	1.8

Backlog of unfilled orders by product category

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

	Previous Consolidated FY April 1, 2005 to March 31, 2006		Current Consolidated FY April 1, 2006 to March 31, 2007		Variance	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
		%		%		%
Network Integration Products	13,261	39.0	10,651	31.5	(2,610)	(19.7)
Network Computing Products	289	0.9	358	1.0	68	23.7
Media Integration Products	1,799	5.3	2,667	7.9	867	48.2
Service Integration Products	18,608	54.8	20,159	59.6	1,550	8.3
Total	33,960	100.0	33,836	100.0	(123)	(0.4)

(Reference) Non-consolidated financial statementsComparative balance sheet

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

	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	72,453	88.6	71,948	88.1	(505)
Cash and deposits	14,175		15,845		1,670
Note receivables	781		1,033		252
Account receivables	34,399		29,638		(4,761)
Securities	8,999		11,997		2,997
Commercial goods	8,556		8,562		5
Goods in transit	480		760		280
Uncompleted works	2,154		1,263		(890)
Inventory goods	2		5		2
Advanced payment	1		4		3
Prepaid expense	1,181		1,693		512
Deferred income taxes	556		505		(50)
Short term loans	695		551		(143)
Consumption tax receivable	157		-		(157)
Others	312		85		(226)
Allowance for doubtful receivables	(1)		(1)		-
Fixed Assets	9,301	11.4	9,735	11.9	433
Tangible Fixed Assets	3,852	4.7	4,161	5.1	309
Buildings	304		359		55
Furniture, fixtures, and Equipment	3,545		3,800		254
Lease assets	2		1		(0)
Intangible Fixed Assets	1,443	1.8	1,372	1.7	(70)
Software	1,443		1,372		(70)
Investment and Other Assets	4,005	4.9	4,200	5.1	194
Investment securities	212		466		254
Stocks of affiliated companies	1,322		1,437		115
Investment in capital	75		73		(1)
Investment in affiliated company	104		104		-
Long term loans to employees	23		11		(12)
Receivables from insolvent companies	226		225		(0)
Long term prepaid expense	150		46		(103)

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Deferred income tax assets	1,271		1,339		68
Security deposits	706		702		(4)
Others	137		17		(120)
Allowance for doubtful receivables	(226)		(225)		0
Total Assets	81,754	100.0	81,683	100.0	(71)

Comparative balance sheet

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

	Previous FY (as of March 31, 2006)		Current FY (as of March 31, 2007)		Variance
	Amount	Ratio	Amount	Ratio	
		%		%	
LIABILITIES					
Current Liabilities	20,654	25.3	18,730	22.9	(1,924)
Accounts payable	15,160		12,425		(2,735)
Miscellaneous accounts payable	1,180		913		(266)
Accrued expenses	430		549		119
Accrued corporation tax etc.	1,011		765		(245)
Consumption tax etc. Payable	-		178		178
Advance received	2,298		3,281		983
Deposit received	80		130		49
Allowance for bonuses	392		441		49
Others	-		20		20
	100		24		(76)
Fixed Liabilities					
Long term miscellaneous account	165	0.2	73	0.1	(92)
	165		73		(92)
Total Liabilities					
LIABILITIES	20,820	25.5	18,803	23.0	(2,016)
SHAREHOLDERS' EQUITY					
Capital stock	12,279	15.0	-	-	-
Additional paid-in Capital	19,453	23.8	-	-	-
Capital reserve	19,453		-		-
Accumulated earnings	29,302	35.8	-	-	-
Earned surplus reserve	86		-		-
Unappropriated reserve	24,782		-		-
Reserve for extraordinary depreciation of IT equipment	12		-		-
Other reserve	24,770		-		-
Unappropriated income for the current year	4,432		-		-
Difference from securities revaluation	(5)	(0.0)	-	-	-
Treasury stocks	(94)	(0.1)	-	-	-

Total shareholders' equity	60,934	74.5	-	-	-
Total Liabilities, Shareholders' Equity	81,754	100.0	-	-	-

Comparative balance sheet

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

	Previous FY (as of March 31, 2006)		Current FY (as of March 31, 2007)		Variance
	Amount	Ratio	Amount	Ratio	
NET ASSETS		%		%	
Shareholders' equity	-	-	62,852	77.0	-
Capital stock	-	-	12,279	15.1	-
Additional paid-in capital	-	-	19,453	23.8	-
Capital reserve	-	-	19,453		-
Accumulated earnings	-	-	31,214	38.2	-
Earned surplus reserve	-	-	86		-
Other accumulated earnings	-	-			-
Reserve for extraordinary depreciation of IT equipment	-	-	2		-
Other reserve	-	-	27,920		-
Earned surplus carried forward	-	-	3,205		-
Treasury stocks	-	-	(94)	(0.1)	-
Revaluation and translation adjustments	-	-	26	0.0	-
Securities revaluation adjustments	-	-	(2)	(0.0)	-
Deferred charge from hedging instruments	-	-	29	0.0	-
Total net assets	-	-	62,879	77.0	-
Total liabilities and net assets	-	-	81,683	100.0	-

Comparative income statement

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

	Previous FY April 1, 2005 to March 31, 2006		Current FY April 1, 2006 to March 31, 2007		Variance
	Amount	Ratio	Amount	Ratio	
		%		%	
Sales	105,508	100.0	107,144	100.0	1,635
Cost of goods sold	83,040	78.7	85,018	79.3	1,978
Gross profit on sales	22,468	21.3	22,125	20.7	(342)
Selling, general and administrative expenses	15,708	14.9	17,083	16.0	1,374
Operating profit	6,759	6.4	5,042	4.7	(1,717)
Non-operating income	116	0.1	107	0.1	(8)
Interest income	9		15		6
Interest on securities	2		34		31
Dividends	1		1		-
Service fee from affiliated companies	10		9		(1)
Exchange gain on foreign currencies	22		-		(22)
Dividend from group insurance	19		28		9
Others	51		18		(33)
Non-operating expense	20	0.0	30	0.0	10
Exchange loss on foreign currencies	-		6		6
Commitment fee	9		9		(0)
Investment operation loss	2		10		8
Others	8		4		(3)
Ordinary profit	6,855	6.5	5,119	4.8	(1,736)
Extraordinary profit	165	0.1	0	0.0	(164)
Reversal of allowance for doubtful receivables	112		0		(111)
Gain on sales of fixed assets	8		-		(8)
Gain on sales of investments in securities	0		-		(0)
Gain on sales of stocks of affiliated companies	39		-		(39)
Others	4		-		(4)
Extraordinary loss	145	0.1	368	0.4	222

Loss from removal of fixed assets	12		107		94
Impairment loss	132		-		(132)
Loss on Sales of Investments in Securities	-		2		2
Loss on revaluation of investments in securities	1		24		23
Loss on revaluation of affiliated company's stocks	-		34		34
Expenses relating to termination of business relocation	-		199		199
Income before income taxes	6,875	6.5	4,752	4.4	(2,123)
Income taxes current	2,759	2.6	2,025	1.8	(734)
Income taxes deferred	(110)	(0.1)	(39)	(0.0)	70
Current net income	4,226	4.0	2,767	2.6	(1,459)
Retained earnings at the beginning of the period	570		-		-
Unappropriated profit carried forward of the merging company	49		-		-
Interim dividend	413		-		-
Unappropriated net profit for the FY	4,432		-		-

Comparative Surplus Statement and Consolidated Statements of Changes in Shareholders' Equity

1. Surplus Statement

(unit: rounded down to the nearest million yen)

	Current FY April 1, 2006 to March 31, 2007
	Amount
Unappropriated income for the current year	4,432
Reversal of voluntary reserve	
Appropriation of reserve for extraordinary depreciation of certain IT equipment	4
Total	4,437
Amount of appropriation	
Dividends	413
Bonus to directors	27
Voluntary reserve	
Other reserve	3,150
Total	3,590
Earned surplus carried forward to the following FY	846

2. Statement of changes in shareholders' equity

Current business year (April 1, 2006 to March 31, 2007)

(unit: rounded down to the nearest million yen)

	Shareholders' equity							Evaluation and translation adjustments (Note 2)	Total net assets
	Capital stock	Additional paid-in capital	Accumulated earnings			Treasury stocks	Total shareholder s' equity		
			Capital reserve	Earned surplus reserve	Other accumulated earnings (Note 1)				
Balance as of March 31, 2006	12,279	19,453	86	29,215	29,302	(94)	60,940	(5)	60,934
Changes during the period									
Dividends from accumulated earnings (Note 3)				(413)	(413)		(413)		(413)
Dividends from accumulated earnings (mid-term)				(413)	(413)		(413)		(413)
Executive bonuses (Note 3)				(27)	(27)		(27)		(27)
Net income for the period				2,767	2,767		2,767		2,767
Changes (net) in items other than shareholders' equity								32	32
Total changes during the period	-	-	-	1,912	1,912	-	1,912	32	1,945
Balance as of March 31, 2007	12,279	19,453	86	31,127	31,214	(94)	62,852	26	62,879

(Note 1) Details of other accumulated earnings

(unit: rounded down to the nearest million yen)

	Expenses of extraordinary depreciation of IT equipment	Other reserve	Earned surplus carried forward	Total
Balance at March 31, 2006	12	24,770	4,432	29,215
Changes during the period				
Reversal of reserve for extraordinary depreciation of IT equipment (Note 3)	(4)		4	-

Reversal of reserve for extraordinary depreciation of IT equipment	(4)		4	-
Addition to other reserve (Note 3)		3,150	(3,150)	-
Dividends from accumulated earnings (Note 3)			(413)	(413)
Dividends (interim period dividends) from accumulated earnings			(413)	(413)
Executives bonuses (Note 3)			(27)	(27)
Current net income			2,767	2,767
Total changes during the period	(9)	3,150	(1,227)	1,912
Balance at March 31, 2007	2	27,920	3,205	31,127

(Note 2) Details of revaluation and translation adjustments

(unit: rounded down to the nearest million yen)

	Securities revaluation adjustment	Deferred charge from hedging instruments	Total
Balance at March 31, 2006	(5)	-	(5)
Changes during the period			
Changes (net) in items other than shareholders' equity	2	29	32
Total changes during the period	2	29	32
Balance at March 31, 2007	(2)	29	26

(Note 3) These are items under plan for appropriation of earnings in ordinary general meeting of shareholders held in June 2006.

Change in directors (scheduled for June 22, 2007)

1. Changes to CEO

Not applicable.

2. Changes to other directors

(1) Candidate for new director

Director (part-time) Katsutoshi Ichikawa

(current President & Representative Director Network Service And Technologies Co., Ltd.)

(2) Retiring director

Director Isao Nakamura