

Financial Report for First Three Months of Fiscal Year Ending March 31, 2010



July 24, 2009

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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 Scheduled date to file Quarterly Securities Report: August 14, 2009
 Scheduled date to commence dividend payments: –

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

1. Business Results for Three Months of Fiscal Year Ending March 31, 2010 (April 1, 2009 to June 30, 2009)

(1) Consolidated financial results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2009	28,064	8.6	1,052	19.3	1,055	9.9	590	(8.6)
Three months ended June 30, 2008	25,837	–	882	–	961	–	645	–

	Net income per share	Net income per share assuming full dilution
	Yen	Yen
Three months ended June 30, 2009	1,316.39	–
Three months ended June 30, 2008	1,295.30	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2009	78,686	53,568	67.1	117,700.49
(Reference) As of March 31, 2009	81,833	54,409	65.3	119,053.27

(Reference) Equity
 As of June 30, 2009: 52,793 million yen
 As of March 31, 2009: 53,400 million yen

2. Status of Dividends

(Date of record)	Dividend per share				
	End of 1Q	End of 2Q	End of 3Q	End of the term	Annual total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2009	–	850.00	–	2,350.00	3,200.00
Fiscal year ending March 31, 2010	–				
Fiscal year ending March 31, 2010 (Forecast)		1,600.00	–	1,600.00	3,200.00

(Note) There are no changes to the dividend forecast during current quarter.

3. Forecast for Consolidated Financial Results for Fiscal Year Ending March 31, 2010

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2009	66,000	5.8	3,400	(5.2)	3,450	(8.7)	2,000	(11.4)	4,458.86
Fiscal year ending March 31, 2010	139,000	6.0	8,100	(8.8)	8,200	(9.3)	4,700	(4.0)	10,478.32

(Note) There are no changes to the forecast during current quarter.

4. Others

- (1) Changes to significant subsidiaries during the period (changes to wholly owned specified subsidiaries affecting the scope of consolidation) none
- (2) Application of simplified method for accounting procedure and specialized accounting procedure for preparation of quarterly consolidated financial statements none
- (3) Changes to principle, procedure, methods of presentation for accounting for the creation of quarterly consolidated financial statements (indicated in changes to significant matters related to the creation of quarterly consolidated financial statements)
 - 1) Changes related to revision of accounting standard, etc. none
 - 2) Changes other than 1) none
- (4) Shares issued (common stock)
 - 1) Number of end of the term shares issued (including treasury stock)

As of June 30, 2009	551,900
As of March 31, 2009	551,900
 - 2) Number of end of the term treasury stock

As of June 30, 2009	103,355
As of March 31, 2009	103,355
 - 3) Average number of shares during the term (cumulative consolidated term)

Three months ended June 30, 2009	448,545
Three months ended June 30, 2008	498,545

Explanation regarding appropriate usage of business performance forecasts and other significant matters

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 “3. Qualitative information regarding forecast for consolidated financial results” of “[Qualitative information and financial reports]” on page 5.

[Qualitative information and financial reports]

1. Qualitative information regarding consolidated financial results

During the three month period, in the Enterprise Sector (“EP Sector”) market, there continued to be a cautious attitude towards capital investment, particularly within the manufacturing industry, due to the impact of the current economic circumstances. There began to be signs of recovery, however, in parts of the non-manufacturing and financial industries. Nevertheless, the size of the projects composing this recovery were, in general, small in scale and caused only a slight decrease on orders accepted and sales.

In the Telecom and Internet Service Provider Sector (“SP Sector”) market, capital investment by communications carriers continued to be firm, and there was an increase in both orders accepted and sales.

In the Regional Area and Public Sector (“AP Sector”) market, orders accepted were mostly unchanged but sales were stronger, particularly to the public sector, which resulted in a considerable sales increase.

In the Partner Sector market (the core business of 100% subsidiary Net One Partners Co., Ltd. (“NOP”)), orders accepted were mostly unchanged and sales declined.

Under this environment, orders accepted during the three month period increased 596 million yen to 31,279 million yen (up 1.9% year on year). With regard to orders accepted based on market sectors, EP Sector accounted for 5,744 million yen (down 2.5% year on year), SP Sector accounted for 16,445 million yen (up 5.5% year on year), AP Sector accounted for 7,317 million yen (down 1.1% year on year) and Partner Sector (NOP) accounted for 1,772 million yen (down 2.0% year on year). With regard to orders accepted based on network products and service business, network products accounted for 20,162 million yen (down 7.0% year on year) and service business accounted for 11,117 million yen (up 23.6% year on year).

Net sales during the three month period increased 2,226 million yen to 28,064 million yen (up 8.6% year on year). With regard to sales based on market sectors, 5,909 million yen were in EP Sector (down 4.5% year on year), 14,582 million yen were in SP Sector (up 6.6% year on year), 6,117 million yen were in AP Sector (up 40.1% year on year) and 1,454 million yen were in Partner Sector (NOP) (down 9.0% year on year). With regard to net sales based on network products and service business, 18,002 million yen were comprised of network products (up 4.9% year on year) and 10,061 million yen were comprised of service business (up 15.9% year on year).

Backlog of unfilled orders during the three month period decreased 1,928 million yen to 42,411 million yen (down 4.3% year on year). A breakdown of the backlog of unfilled orders based on market sectors is as follows. 8,715 million yen were in EP Sector (down 14.5% year on year), 15,506 million yen were in SP Sector (up 11.8% year on year), 16,367 million yen were in AP Sector (down 12.3% year on year) and 1,821 million yen were in Partner Sector (NOP) (up 12.7% year on year).

With regard to profit and loss during the three month period, net sales, as already mentioned, accounted for 28,064 million yen (an increase of 2,226 million yen or 8.6% year on year) and cost of sales was accounted for 21,061 million yen (an increase of 1,666 million yen or 8.6%), resulting in the recording of gross profit of 7,002 million yen (an increase of 559 million yen or 8.7%). As selling, general and administrative expenses were 5,949 million yen (an increase of 388 million yen or 7.0%), operating income was 1,052 million yen (an increase of 170 million yen or 19.3%), ordinary income was 1,055 million yen (an increase of 94 million yen or 9.9%) and net income was 590 million yen (a decrease of 55 million yen or 8.6%).

2. Qualitative information regarding consolidated financial position

(1) Status of assets, liabilities, and net assets

(Assets)

Total assets at the end of the three months (June 30, 2009) were 78,686 million yen, down 3,146 million yen (-3.8%) from the end of the previous fiscal year.

The individual items were as follows. Current assets were 66,990 million yen, down 3,482 million yen (-4.9%) from the end of the previous fiscal year. Significant factors contributing to the decrease in current assets included a decrease of 6,658 million yen in notes and accounts receivable-trade and increases of 3,435 million yen in cash and deposits and short-term investment securities in total. Noncurrent assets were 11,696 million yen, up 335 million yen (+3.0%) from the end of the previous fiscal year.

(Liabilities)

Liabilities were 25,118 million yen, down 2,305 million yen (-8.4%) from the end of the previous fiscal year. Significant factors for this included a decrease of 3,327 million yen in income taxes payable.

(Net assets)

Net assets were 53,568 million yen, down 841 million yen (-1.5%) from the end of the previous fiscal year. Significant factors for this included a decrease of 463 million yen in retained earnings due to the recording of net income and the appropriation of surplus, and a decrease of 234 million yen in minority interests due to the additional acquisition of stocks from consolidated subsidiaries and the recording of minority interests.

(2) Status of cash flow

In the three month period, net cash provided by operating activities was 5,415 million yen due to income from the collection of notes and accounts receivable-trade and the payment of income taxes.

In contrast, net cash used in investing activities was 934 million yen due to the acquisition of noncurrent assets etc. for operations and the construction etc. of internal company systems, and net cash used in financing activities was 1,044 million yen due to the payment of cash dividends. There was a net increase of cash and cash equivalents of 3,435 million yen. As a result, cash and cash equivalents at the end of the three month period was 26,134 million yen.

A year-on-year comparison to the corresponding period of the previous year is presented below.

(Net cash provided by operating activities)

Net cash provided by operating activities was 5,415 million yen, a year-on-year increase of 1,844 million yen. This was mainly due to 7,218 million yen being provided by a decrease in inventories. Concerning factors of decrease, the proceeds provided by collection of notes and accounts receivable-trade declined by 1,278 million yen, in addition 1,003 million yen was used due to an increase in notes and accounts payable-trade and a further 2,204 million yen was used in the payment of income taxes.

(Net cash used in investing activities)

Net cash used in investing activities was 934 million yen, a year-on-year increase of 205 million yen in cash used. Significant factors for this included 124 million yen being used in the purchase of stocks of subsidiaries and affiliates.

(Net cash used in financing activities)

Net cash used in financing activities was 1,044 million yen, a year-on-year increase of 489 million yen in cash used. Significant factors for this included an increase of 394 million yen in cash dividends paid.

3. Qualitative information regarding forecast for consolidated financial results

With regard to the forecast for financial results, there were no changes to the forecast detailed in Financial Report for FY2008 disclosed on May 11, 2009.

4. Others

- (1) Changes to significant subsidiaries during the three month period (changes to wholly owned specified subsidiaries affecting the scope of consolidation)

Not applicable.

- (2) Applications of simplified method for accounting procedure and specialized accounting procedure for preparation of quarterly consolidated financial statements

Not applicable.

- (3) Changes to principle, procedure, methods of presentation for accounting for the creation of quarterly consolidated financial statements

Not applicable.

5. Consolidated financial statements

(1) Consolidated balance sheets

	(unit: million yen)	
	As of June 30, 2009	As of March 31, 2009 (Summary)
Assets		
Current assets		
Cash and deposits	9,135	12,700
Notes and accounts receivable-trade	25,750	32,408
Short-term investment securities	16,998	9,998
Merchandise	7,635	7,087
Goods in transit	572	552
Costs on uncompleted construction contracts	1,693	3,248
Supplies	5	5
Deferred tax assets	969	1,337
Other	4,249	3,178
Allowance for doubtful accounts	(19)	(44)
Total current assets	66,990	70,472
Noncurrent assets		
Property, plant and equipment		
Tools, furniture and fixtures	5,122	5,002
Other	614	547
Total property, plant and equipment	5,736	5,550
Intangible assets		
Goodwill	-	2
Other	1,376	1,448
Total intangible assets	1,376	1,451
Investments and other assets		
Investment securities	821	754
Deferred tax assets	2,187	2,199
Other	1,610	1,520
Allowance for doubtful accounts	(35)	(115)
Total investments and other assets	4,583	4,358
Total noncurrent assets	11,696	11,361
Total assets	78,686	81,833

(unit: million yen)

	As of June 30, 2009	As of March 31, 2009 (Summary)
Liabilities		
Current liabilities		
Accounts payable-trade	13,346	14,077
Lease obligations	449	343
Accounts payable-other	1,700	1,400
Income taxes payable	99	3,427
Advances received	7,024	4,552
Provision for bonuses	977	1,049
Provision for directors' bonuses	-	135
Provision for loss on liquidation of subsidiaries and affiliates	27	27
Other	967	2,042
Total current liabilities	24,592	27,056
Noncurrent liabilities		
Lease obligations	503	356
Long-term accounts payable-other	4	4
Negative goodwill	12	-
Other	6	6
Total noncurrent liabilities	525	367
Total liabilities	25,118	27,423
Net assets		
Shareholders' equity		
Capital stock	12,279	12,279
Capital surplus	19,453	19,453
Retained earnings	37,257	37,720
Treasury stock	(16,167)	(16,167)
Total shareholders' equity	52,822	53,286
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(17)	(12)
Deferred gains or losses on hedges	(11)	126
Total valuation and translation adjustments	(28)	114
Minority interests	774	1,009
Total net assets	53,568	54,409
Total liabilities and net assets	78,686	81,833

(2) Consolidated income statements

(Three months ended June 30, 2008 and 2009)

(unit: million yen)

	Three months ended June 30, 2008	Three months ended June 30, 2009
Net sales	25,837	28,064
Cost of sales	19,395	21,061
Gross profit	6,442	7,002
Selling, general and administrative expenses	5,560	5,949
Operating income	882	1,052
Non-operating income		
Interest income	37	19
Dividends income	1	0
Equity in earnings of affiliates	19	–
Operations consignment fee from subsidiaries and affiliates	–	0
Foreign exchange gains	–	5
Gain on investments in capital	16	–
Other	11	10
Total non-operating income	86	35
Non-operating expenses		
Interest expenses	1	9
Equity in losses of affiliates	–	22
Foreign exchange losses	5	–
Loss on investments in capital	–	0
Other	0	0
Total non-operating expenses	7	32
Ordinary income	961	1,055
Extraordinary income		
Gain on sales of investment securities	150	–
Reversal of allowance for doubtful accounts	0	104
Total extraordinary income	150	104
Extraordinary loss		
Loss on retirement of noncurrent assets	5	13
Loss on valuation of investment securities	–	1
Total extraordinary losses	5	14
Income before income taxes and minority interests	1,106	1,145
Income taxes-current	53	24
Income taxes-deferred	378	478
Total income taxes	431	503
Minority interests in income	29	51
Net income	645	590

(3) Consolidated cash flow statements

(unit: million yen)

	Three months ended June 30, 2008	Three months ended June 30, 2009
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	1,106	1,145
Depreciation and amortization	669	727
Amortization of goodwill	0	0
Increase (decrease) in provision for bonuses	(110)	(72)
Increase (decrease) in provision for directors' bonuses	(27)	(135)
Increase (decrease) in allowance for doubtful accounts	(19)	(104)
Interest and dividends income	(38)	(19)
Equity in (earnings) losses of affiliates	(19)	22
Interest expenses	1	9
Loss (gain) on sales of investment securities	(150)	-
Loss (gain) on valuation of investment securities	-	1
Decrease (increase) in notes and accounts receivable-trade	10,488	9,210
Decrease (increase) in inventories	(6,231)	987
Decrease (increase) in consumption taxes refund receivable	(135)	(6)
Decrease (increase) in other current assets	(803)	(1,119)
Increase (decrease) in notes and accounts payable-trade	273	(730)
Increase (decrease) in accrued consumption taxes	(22)	(449)
Increase (decrease) in other current liabilities	(273)	(711)
Other, net	(96)	(61)
Subtotal	4,612	8,694
Interest and dividends income received	39	15
Interest expenses paid	(1)	(9)
Income taxes paid	(1,090)	(3,295)
Other, net	11	9
Net cash provided by (used in) operating activities	3,570	5,415
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(459)	(473)
Purchase of intangible assets	(297)	(67)
Purchase of investment securities	-	(99)
Proceeds from sales of investment securities	158	0
Purchase of stocks of subsidiaries and affiliates	-	(124)
Payments for establishment of subsidiaries	(50)	-
Payments of loans receivable	(2)	(3)
Collection of loans receivable	2	4
Payments for investments in capital	-	(0)
Other, net	(81)	(170)
Net cash provided by (used in) investing activities	(729)	(934)
Net cash provided by (used in) financing activities		
Repayments of lease obligations	(26)	(121)
Cash dividends paid	(527)	(922)
Net cash provided by (used in) financing activities	(554)	(1,044)
Net increase (decrease) in cash and cash equivalents	2,286	3,435
Cash and cash equivalents at beginning of period	25,550	22,698
Cash and cash equivalents at end of period	27,836	26,134

(4) Notable matters regarding assumptions of a going concern

No notable matters.

(5) Notable matters regarding significant changes regarding the amount of shareholders' equity

No notable matters.

6. Other information

Expenses and amounts for major items under selling, general and administrative expenses

(unit: million yen)

Three months ended June 30, 2008		Three months ended June 30, 2009	
Salaries and allowances	2,185	Salaries and allowances	2,134
Provision for bonuses	520	Provision for bonuses	846
Rent expenses	517	Rent expenses	558
Depreciation and amortization	321	Depreciation and amortization	332
Amortization of goodwill	0	Amortization of goodwill	0