

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



February 1, 2010

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>)
 Representative: President & CEO Takayuki Yoshino
 Inquiries: General Manager, Finance and Accounting Masami Aihara
 Telephone: (03) 5462-0800

Scheduled date to file Quarterly Securities Report: February 12, 2010

Scheduled date to commence dividend payments: –

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

1. Business Results for Nine Months of Fiscal Year Ending March 31, 2010 (April 1, 2009 to December 31, 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	%
Nine months ended December 31, 2009	83,866	(9.5)	2,446	(55.4)	2,513	(55.1)	1,230	(62.2)
Nine months ended December 31, 2008	92,709	–	5,489	–	5,594	–	3,253	–

	Net income per share	Net income per share assuming full dilution
	Yen	Yen
Nine months ended December 31, 2009	2,742.51	–
Nine months ended December 31, 2008	6,576.82	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2009	75,422	52,929	70.2	118,003.59
(Reference) As of March 31, 2009	81,833	54,409	65.3	119,053.27

(Reference) Equity

As of December 31, 2009: 52,929 million yen

As of March 31, 2009: 53,400 million yen

2. Status of Dividends

	Dividend per share				
	End of 1Q	End of 2Q	End of 3Q	End of the term	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	–	1,600.00	–		
Fiscal year ending March 31, 2010 (Forecast)				1,600.00	3,200.00

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

The Company has announced its aim to provide 30% or more consolidated dividend payout.

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
Fiscal year ending March 31, 2010	118,000	(10.0)	3,900	(56.1)	4,000	(55.7)	2,100	(57.1)	4,681.80

(Note) There are 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 standards, etc. none

2) Changes other than 1) none

(4) Shares issued (common stock)

1) Number of end of the period shares issued (including treasury stock)

As of S December 31, 2009 551,900

As of March 31, 2009 551,900

2) Number of end of the period treasury stock shares

As of December 31, 2009 103,355

As of March 31, 2009 103,355

3) Average number of shares during the period (cumulative from beginning of the fiscal year)

Nine months ended December 31, 2009 448,545

Nine months ended December 31, 2008 494,726

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 Statements]” on page 7.

(Reference) Business Results for 3Q of Fiscal Year Ending March 31, 2010 (October 1, 2009 to December 31, 2009)

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

Consolidated financial results (three months)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
3Q ended December 31, 2009	24,994	(17.6)	(280)	–	(266)	–	(223)	–
3Q ended December 31, 2008	30,350	–	1,904	–	1,813	–	997	–

	Net income per share	Net income per share assuming full dilution
	Yen	Yen
3Q ended December 31, 2009	(498.58)	–
3Q ended December 31, 2008	2,047.94	–

[Qualitative Information and Financial Statements]

1. Qualitative information regarding consolidated financial results

[Nine months ended December 31, 2009 (April 2009 to December 2009)]

During the nine month period, although there was strong performance from projects for data centers, particularly projects involving virtualization, overall performance from the network integration business was sluggish.

In the Enterprise Sector (“EP Sector”) market, there have been active business negotiations aimed at the next fiscal year (beginning April 2010) and onwards. With respect to projects in the current fiscal year, however, performance still remains sluggish apart from some companies.

In the Telecom and Internet Service Provider Sector (“SP Sector”) market, although there was strong performance from mobile-related projects, the telecommunication carriers are delaying investment in infrastructure.

In the Regional Area and Public Sector (“AP Sector”) market, although there is less downward pressure on prices than there was in the second quarter, we are still exposed to price competition and there is a delay in orders accepted due to a delay in the execution of part of the budget.

In the Partner Sector (the core business of 100% subsidiary Net One Partners Co., Ltd. (“NOP”)), we made energetic efforts towards deepening existing partnership relationships and cultivating new partnership development.

In addition to the aforementioned markets, time is being taken to record sales due to delays in deliveries from network equipment makers.

Under this environment, orders accepted during the nine month period decreased 4,562 million yen to 93,622 million yen (down 4.6% year on year). With regard to orders accepted by market sector, EP Sector accounted for 16,605 million yen (down 10.2% year on year), SP Sector accounted for 45,513 million yen (down 3.0% year on year), AP Sector accounted for 25,137 million yen (down 8.4% year on year) and Partner Sector (NOP) accounted for 6,366 million yen (up 19.1% year on year).

Concerning orders accepted by product category, reflecting the above market conditions, the network products accounted for 56,700 million yen (down 11.6% year on year), while the platform products, which the Company treats as a strategic business, accounted for 8,137 million yen (up 38.4% year on year) and the service products accounted for 28,783 million yen (up 2.2% year on year).

Net sales during the nine month period decreased 8,842 million yen to 83,866 million yen (down 9.5% year on year). With regard to sales by market sector, EP Sector accounted for 16,286 million yen (down 11.7% year on year), SP Sector accounted for 43,255 million yen (down 10.3% year on year), AP Sector accounted for 19,383 million yen (down 7.0% year on year) and Partner Sector (NOP) accounted for 4,941 million yen (down 4.8% year on year).

Concerning sales by product category, the network products accounted for 48,125 million yen (down 19.8% year on year), the platform products accounted for 5,856 million yen (up 42.6% year on year) and the service products accounted for 29,884 million yen (up 4.6% year on year).

Backlog of unfilled orders at the end of the nine month period increased 3,981 million yen to 48,951 million yen (up 8.9% year on year). A breakdown of the backlog of unfilled orders by market sector is as follows. 9,199 million yen were in EP Sector (down 12.6% year on year), 15,901 million yen were in SP Sector (up 49.7% year on year), 20,921 million yen were in AP Sector (down 6.0% year on year) and 2,929 million yen were in Partner Sector (NOP) (up 87.5% year on year).

With regard to profit and loss during the nine month period, net sales, as already mentioned, accounted for 83,866 million yen (a decrease of 8,842 million yen or 9.5% year on year) and cost of sales accounted for 62,956 million yen (a decrease of 7,162 million yen or 10.2% year on year), resulting in the recording of gross profit of 20,910 million yen (a

decrease of 1,679 million yen or 7.4% year on year). As selling, general and administrative expenses were 18,463 million yen (an increase of 1,364 million yen or 8.0% year on year), operating income was 2,446 million yen (a decrease of 3,043 million yen or 55.4% year on year), ordinary income was 2,513 million yen (a decrease of 3,081 million yen or 55.1% year on year) and net income was 1,230 million yen (a decrease of 2,023 million yen or 62.2% year on year).

[FY 3Q (October 2009 to December 2009)]

Orders accepted during FY 3Q decreased 1,566 million yen to 32,026 million yen (down 4.7% year on year). With regard to orders accepted by market sector, 5,882 million yen were in EP Sector (down 12.9% year on year), 14,111 million yen were in SP Sector (up 2.7% year on year), 9,612 million yen were in AP Sector (down 17.1% year on year) and 2,419 million yen were in Partner Sector (NOP) (up 60.5% year on year).

Net sales during FY 3Q decreased 5,356 million yen to 24,994 million yen (down 17.6% year on year). With regard to sales by market sector, 4,819 million yen were in EP Sector (down 21.4% year on year), 12,080 million yen were in SP Sector (down 20.4% year on year), 6,320 million yen were in AP Sector (down 14.2% year on year) and 1,773 million yen were in Partner Sector (NOP) (up 5.2% year on year).

With regard to profit and loss during FY 3Q, net sales, as already mentioned, accounted for 24,994 million yen (a decrease of 5,356 million yen or 17.6% year on year) and cost of sales accounted for 19,082 million yen (a decrease of 3,769 million yen or 16.5% year on year) resulting in the recording of gross profit of 5,911 million yen (a decrease of 1,587 million yen or 21.2% year on year). As selling, general and administrative expenses were 6,192 million yen (an increase of 598 million yen or 10.7% year on year), operating loss was 280 million yen, ordinary loss was 266 million yen and net loss was 223 million yen.

2. Qualitative information regarding consolidated financial position

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

(Assets)

Total assets at the end of FY 3Q (December 31, 2009) were 75,422 million yen, down 6,411 million yen or 7.8% from the end of the previous fiscal year (March 31, 2009).

The individual items were as follows. Current assets were 63,282 million yen, down 7,190 million yen or 10.2% from the end of the previous fiscal year. Significant factors contributing to the decrease in current assets included a decrease of 11,608 million yen in notes and accounts receivable–trade and the increase of 3,031 million yen in other. Noncurrent assets were 12,140 million yen, up 778 million yen or 6.9% from the end of the previous fiscal year. Significant factors for this included an increase of 868 million yen in goodwill.

(Liabilities)

Liabilities were 22,492 million yen, down 4,931 million yen or 18.0% from the end of the previous fiscal year. Significant factors for this included decreases of 3,313 million yen in income taxes payable and of 2,340 million yen in accounts payable–trade respectively.

(Net assets)

Net assets were 52,929 million yen, down 1,480 million yen or 2.7% from the end of the previous fiscal year. Significant factors for this included a decrease of 1,009 million yen in minority interests.

(2) Status of cash flow

In the nine month period, net cash provided by operating activities was 7,202 million yen due to factors such as income from the collection of notes and accounts receivable–trade.

In contrast, net cash used in investing activities was 4,185 million yen due to factors such as the purchase of stocks of subsidiaries and affiliates and the acquisition of noncurrent assets for operations, and net cash used in financing activities was 2,160 million yen due to factors including the payment of cash dividends. There was a net increase of cash and cash equivalents of 856 million yen. As a result, cash and cash equivalents at the end of the nine month period was 23,554 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 7,202 million yen, a year-on-year increase of 3,209 million yen. Significant factors for this included an increase of 6,985 million yen in the cash provided due to an increase in collection of notes and accounts receivable–trade, but, on the other hand, an increase of 3,327 million yen in income taxes paid.

(Net cash used in investing activities)

Net cash used in investing activities was 4,185 million yen, a year-on-year increase of 1,825 million yen in cash used. Significant factors for this included an increase of 1,935 million yen in the purchase of stocks of subsidiaries and affiliates.

(Net cash used in financing activities)

Net cash used in financing activities was 2,160 million yen, a year-on-year decrease of 7,530 million yen in cash used. Significant factors for this included the absence of payments to acquire treasury stock (8,467 million yen was used to acquire treasury stock in the same period of the previous year) and an increase of 720 million yen in cash dividends paid.

3. Qualitative information regarding forecast for consolidated financial results

With regard to the forecast for financial results, there have been changes to the forecast for the fiscal year ending March 31, 2010 disclosed on October 29, 2009. For details, please refer to the “Notice regarding revised forecasts” announced separately today, February 1, 2010.

4. Others

(1) Changes to significant subsidiaries during the 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 December 31, 2009	As of March 31, 2009 (Summary)
Assets		
Current assets		
Cash and deposits	6,555	12,700
Notes and accounts receivable-trade	20,800	32,408
Short-term investment securities	16,999	9,998
Merchandise	7,623	7,087
Goods in transit	650	552
Costs on uncompleted construction contracts	3,872	3,248
Supplies	4	5
Deferred tax assets	593	1,337
Other	6,209	3,178
Allowance for doubtful accounts	(25)	(44)
Total current assets	63,282	70,472
Noncurrent assets		
Property, plant and equipment		
Tools, furniture and fixtures	4,809	5,002
Other	877	547
Total property, plant and equipment	5,686	5,550
Intangible assets		
Goodwill	871	2
Other	1,256	1,448
Total intangible assets	2,128	1,451
Investments and other assets		
Investment securities	754	754
Deferred tax assets	2,194	2,199
Other	1,422	1,520
Allowance for doubtful accounts	(46)	(115)
Total investments and other assets	4,324	4,358
Total noncurrent assets	12,140	11,361
Total assets	75,422	81,833

(unit: million yen)

	As of December 31, 2009	As of March 31, 2009 (Summary)
Liabilities		
Current liabilities		
Accounts payable-trade	11,737	14,077
Lease obligations	479	343
Accounts payable-other	1,279	1,400
Income taxes payable	114	3,427
Advances received	6,374	4,552
Provision for bonuses	1,131	1,049
Provision for directors' bonuses	-	135
Provision for loss on liquidation of subsidiaries and affiliates	-	27
Other	866	2,042
Total current liabilities	21,983	27,056
Noncurrent liabilities		
Lease obligations	499	356
Long-term accounts payable-other	4	4
Other	5	6
Total noncurrent liabilities	508	367
Total liabilities	22,492	27,423
Net assets		
Shareholders' equity		
Capital stock	12,279	12,279
Capital surplus	19,453	19,453
Retained earnings	37,179	37,720
Treasury stock	(16,167)	(16,167)
Total shareholders' equity	52,744	53,286
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(26)	(12)
Deferred gains or losses on hedges	211	126
Total valuation and translation adjustments	185	114
Minority interests	-	1,009
Total net assets	52,929	54,409
Total liabilities and net assets	75,422	81,833

(2) Consolidated income statements

(Nine months ended December 31, 2008 and 2009)

(unit: million yen)

	Nine months ended December 31, 2008	Nine months ended December 31, 2009
Net sales	92,709	83,866
Cost of sales	70,119	62,956
Gross profit	22,589	20,910
Selling, general and administrative expenses	17,099	18,463
Operating income	5,489	2,446
Non-operating income		
Interest income	101	55
Dividends income	1	0
Equity in earnings of affiliates	14	2
Operations consignment fee from subsidiaries and affiliates	0	0
Dividends income of group insurance	36	26
Gain on investments in capital	14	–
Other	19	28
Total non-operating income	187	113
Non-operating expenses		
Interest expenses	13	31
Treasury stock repurchase expenses	2	–
Foreign exchange losses	50	12
Organization expenses	4	–
Business commencement expenses	11	–
Loss on investments in capital	–	1
Other	0	0
Total non-operating expenses	83	46
Ordinary income	5,594	2,513
Extraordinary income		
Gain on sales of investment securities	150	–
Reversal of allowance for doubtful accounts	8	108
Total extraordinary income	158	108
Extraordinary loss		
Loss on retirement of noncurrent assets	21	156
Loss on sales of investment securities	–	35
Loss on valuation of investment securities	3	1
Loss on liquidation of subsidiaries and affiliates	–	6
Total extraordinary losses	25	198
Income before income taxes and minority interests	5,727	2,422
Income taxes-current	2,245	395
Income taxes-deferred	124	700
Total income taxes	2,369	1,096
Minority interests in income	104	96
Net income	3,253	1,230

(FY 3Q)

(unit: million yen)

	Previous FY 3Q (October 1, 2008 to December 31, 2008)	Current FY 3Q (October 1, 2009 to December 31, 2009)
Net sales	30,350	24,994
Cost of sales	22,852	19,082
Gross profit	7,498	5,911
Selling, general and administrative expenses	5,594	6,192
Operating income (loss)	1,904	(280)
Non-operating income		
Interest income	29	17
Operations consignment fee from subsidiaries and affiliates	0	0
Foreign exchange gains	–	7
Dividends income of group insurance	3	4
Gain on investments in capital	1	–
Other	5	6
Total non-operating income	40	35
Non-operating expenses		
Interest expenses	6	11
Equity in losses of affiliates	16	9
Treasury stock repurchase expenses	2	–
Foreign exchange losses	88	–
Organization expenses	4	–
Business commencement expenses	11	–
Loss on investments in capital	–	0
Other	0	0
Total non-operating expenses	130	21
Ordinary income (loss)	1,813	(266)
Extraordinary income		
Gain on sales of investment securities	0	–
Reversal of allowance for doubtful accounts	8	2
Total extraordinary income	8	2
Extraordinary loss		
Loss on retirement of noncurrent assets	10	13
Loss on valuation of investment securities	3	–
Loss on liquidation of subsidiaries and affiliates	–	6
Total extraordinary losses	14	19
Income (loss) before income taxes and minority interests	1,807	(284)
Income taxes-current	791	(434)
Income taxes-deferred	(22)	373
Total income taxes	769	(60)
Minority interests in income	40	–
Net income (loss)	997	(223)

(3) Consolidated cash flow statements

(unit: million yen)

	Nine months ended December 31, 2008	Nine months ended December 31, 2009
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	5,727	2,422
Depreciation and amortization	2,290	2,447
Amortization of goodwill	2	48
Increase (decrease) in provision for bonuses	(102)	82
Increase (decrease) in provision for directors' bonuses	(27)	(135)
Increase (decrease) in allowance for doubtful accounts	(109)	(87)
Increase (decrease) in provision for loss on liquidation of subsidiaries and affiliates	-	(27)
Interest and dividends income	(102)	(55)
Equity in (earnings) losses of affiliates	(14)	(2)
Interest expenses	13	31
Loss (gain) on sales of investment securities	(150)	35
Loss (gain) on valuation of investment securities	3	1
Loss on retirement of noncurrent assets	-	156
Decrease (increase) in notes and accounts receivable-trade	6,513	13,499
Decrease (increase) in inventories	(4,003)	(1,256)
Decrease (increase) in consumption taxes refund receivable	(2)	(137)
Decrease (increase) in other current assets	(870)	(794)
Increase (decrease) in notes and accounts payable-trade	(3,319)	(2,338)
Increase (decrease) in accrued consumption taxes	166	(620)
Increase (decrease) in other current liabilities	83	(607)
Other, net	(111)	(65)
Subtotal	<u>5,987</u>	<u>12,594</u>
Interest and dividends income received	104	54
Interest expenses paid	(13)	(31)
Income taxes paid	(2,142)	(5,469)
Other, net	55	53
Net cash provided by (used in) operating activities	<u>3,993</u>	<u>7,202</u>
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(1,732)	(1,855)
Purchase of intangible assets	(460)	(234)
Purchase of investment securities	-	(99)
Proceeds from sales of investment securities	159	45
Payments for establishment of subsidiaries	(50)	-
Purchase of stocks of subsidiaries and affiliates	(86)	(2,022)
Payments of loans receivable	(10)	(65)
Collection of loans receivable	8	61
Payments for investments in capital	-	(0)
Collection of investments in capital	2	-
Other, net	(191)	(13)
Net cash provided by (used in) investing activities	<u>(2,359)</u>	<u>(4,185)</u>

	Nine months ended December 31, 2008	Nine months ended December 31, 2009
Net cash provided by (used in) financing activities		
Repayments of lease obligations	(184)	(400)
Purchase of treasury stock	(8,467)	–
Cash dividends paid	(1,039)	(1,759)
Net cash provided by (used in) financing activities	(9,691)	(2,160)
Net increase (decrease) in cash and cash equivalents	(8,058)	856
Cash and cash equivalents at beginning of period	25,550	22,698
Cash and cash equivalents at end of period	17,492	23,554

(4) Notable matters regarding assumptions of a going concern

Not applicable.

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

Not applicable.

6. Other information

Expenses and amounts for major items under selling, general and administrative expenses on a consolidated basis

(unit: million yen)

Nine months ended December 31, 2008		Nine months ended December 31, 2009	
Salaries and allowances	6,473	Salaries and allowances	6,411
Provision for bonuses	515	Provision for bonuses	968
Provision of allowance for doubtful accounts	131	Provision of allowance for doubtful accounts	21
Rent expenses	1,542	Rent expenses	1,701
Depreciation and amortization	1,031	Depreciation and amortization	1,067
Amortization of goodwill	2	Amortization of goodwill	48

(unit: million yen)

Previous FY 3Q (October 1, 2008 to December 31, 2008)		Current FY 3Q (October 1, 2009 to December 31, 2009)	
Salaries and allowances	2,149	Salaries and allowances	2,125
Provision for bonuses	(177)	Provision for bonuses	73
Provision of allowance for doubtful accounts	(15)	Provision of allowance for doubtful accounts	21
Rent expenses	509	Rent expenses	551
Depreciation and amortization	365	Depreciation and amortization	381
Amortization of goodwill	0	Amortization of goodwill	46