

Interim Financial Report for FY 2000 (Ending March 2001) (Consolidated Report)

November 22, 2000

Registered Corporate Name: **Net One Systems Co., Ltd**
 Registered Stock Code Number: 7518
 Location of Headquarters: 2-8, Higashi Shinagawa 2-Chome, Shinagawa-Ku, Tokyo
 Inquiries: Title Managing Director
 Name Shojiro Takagaki Telephone: (03)5462-0800
 Date of Board Meeting for First Half of FY ending March 2001: November 22, 2000

* **As this Report is the first Interim Consolidated Financial Statement issued by the company, data for the previous FY Interim Statement is not available.**

1. Results of Six Months ended September 30, 2000 (from April 1, 2000 to September 30, 2000)

(1) Consolidated Financial Results

(For figures indicated in million yen, unit rounded down to nearest million yen)

	Sales		Operating Profit		Ordinary Profit	
	Million Yen	%	Million Yen	%	Million Yen	%
Six Months ended Sept. 2000	21,166	(-)	1,399	(-)	1,380	(-)
Six Months ended Sept. 1999	-	(-)	-	(-)	-	(-)
Year ended Mar. 2000	34,804	(-)	2,678	(-)	2,698	(-)

	Interim Net Income		Net Income Per Share	Net Income Per Share (assuming Full Dilution)
	Million Yen	%	Yen	Yen
Six Months ended Sept. 2000	659	(-)	5,511.45	5,462.59
Six Months ended Sept. 1999	-	(-)	-	-
Year ended Mar. 2000	1,322	(-)	16,693.75	16,363.43

(note)

- Equity in net earnings of affiliated companies
 Six Months ended Sept. 2000: - million yen
 Six Months ended Sept. 1999: - million yen
 Year ended Mar. 2000: - million yen
- Difference between carrying amount and estimated fair value of derivative instruments
 as of end of current interim period: 43 million yen
- Changes in Principal Accounting Policies: None
- Percentage: Increase/Decrease against corresponding period of the previous year on Sales,
 Operating Profit, Ordinary Profit, and Net Income

(2) Financial Position

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio to Total Assets	Shareholders' Equity per Share
	Million Yen	Million Yen	%	Yen
Six Months ended Sept. 2000	37,534	16,371	43.6	136,395.54
Six Months ended Sept. 1999	-	-	-	-
Year ended Mar. 2000	27,117	15,297	56.4	192,144.77

(3) Cash Flows

	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 year
	Million Yen	Million Yen	Million Yen	Million Yen
Six Months ended Sept. 2000	10,640	550	9,303	3,198
Six Months ended Sept. 1999	-	-	-	-
Year ended Mar. 2000	3,757	1,253	1,165	4,985

(4) Scope of Consolidation and Equity Method

Consolidated Subsidiaries: 2 subsidiaries

Unconsolidated Subsidiaries (equity method is applied to all subsidiaries): 0

Affiliated companies (Equity method is applied): 0

(5) Changes in scope of Consolidation and Equity Method

Consolidation: Increase 1, Decrease 0

Equity Method: Increase 0, Decrease 0

2. Forecast for the Fiscal Year ending March 31, 2001
(from April 1, 2000 to March 31, 2001)

	Sales	Ordinary Profit	Current Net Income
	Million Yen	Million Yen	Million Yen
For FY ending Mar. 31, 2001	49,000	3,900	3,800

Reference: Expected Net Income per Share for FY ending March 31, 2001: 31,655.85 Yen

[Reference Information regarding Net Income Per Share, Net Income Per Share (assuming full dilution), and Shareholders' Equity per Share]

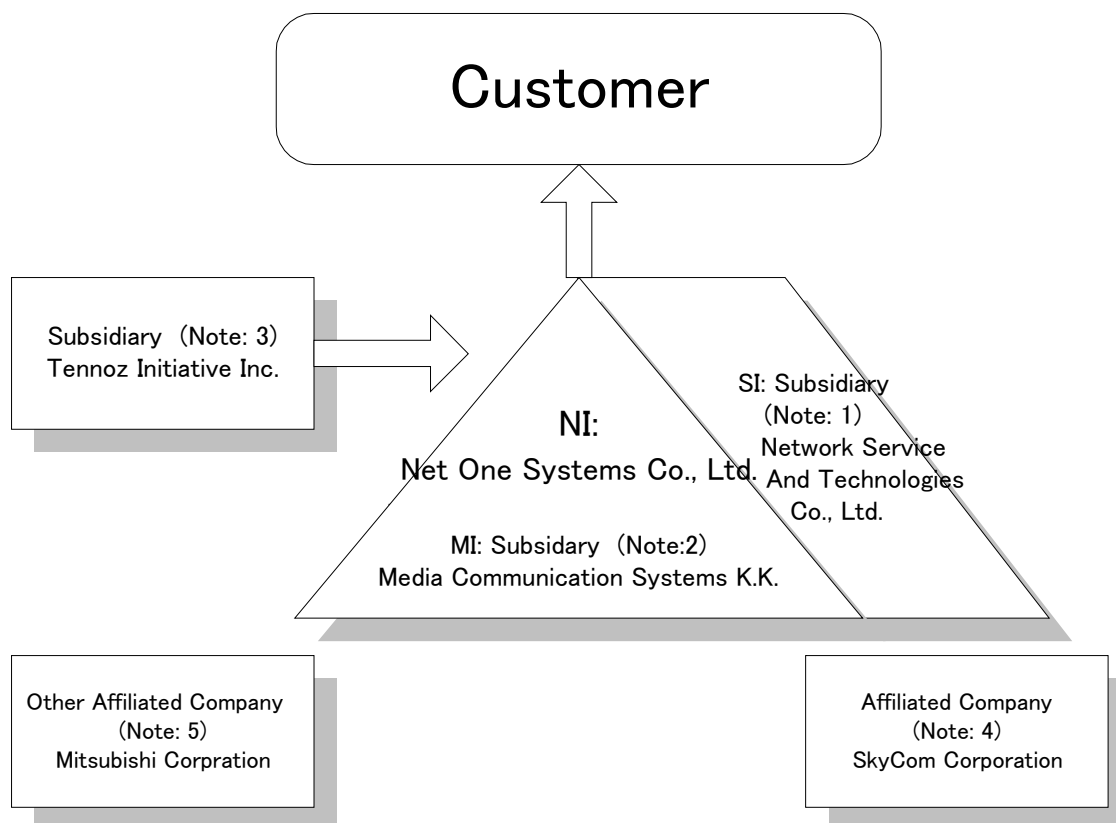
In order to make comparisons over period of time, following chart indicates the per share values of Net Income Per Share, Net Income Per Share (assuming full dilution), and Shareholders' Equity per Share after retroactive adjustments for the stock split of May 22, 2000 (stock split ratio of 1.5 for 1)

	Net Income Per Share	Net Income Per Share (assuming full dilution)	Shareholders' Equity per Share
	Yen	Yen	Yen
Six Months ended Sept. 2000	5,511.45	5,462.59	136,395.54
Six Months ended Sept. 1999	-	-	-
For Year ending Mar. 2000	11,129.17	10,909.00	128,096.52

Status of Net One Systems Group

Net One Systems Group is comprised of Net One Systems Co., Ltd., three subsidiaries, and one affiliated company. The core business of the Net One Systems Group is to deploy network computing system using most advanced technology and offer related operation and management services. The business scope of network computing system is segregated into NI (Network Integration) related to upper network architecture layers, MI (Media Integration) related to lower network architecture layers in relation to product configuration and service type, and SI (Service Integration) for businesses related to service, operation or management. The core businesses of Net One Systems Co. Ltd., Media Communication Systems K.K, and Network Service And Technologies Co., Ltd are NI, MI and SI respectively. In addition, Net One Systems Co., Ltd. and U.S. subsidiary, (Tennoz Initiative Inc.) perform US network market research and search for most advanced technology and products.

The following diagram outlines the Net One Systems Group.



Note 1: Network Service And Technologies Co., Ltd. is a company providing Service Integration and is a consolidated subsidiary.

Note 2: Media Communication Systems K.K. is a company providing Media Integration and is a consolidated subsidiary.

Note 3: Tennoz Initiative Inc. is a company researching on U.S. computer network market, and advanced technologies and searching for new products, and is an unconsolidated subsidiary with no 20 to 50 percent ownership.

Note 4: SkyCom Corporation's core business is to develop and offer computer network related software and it is an unconsolidated subsidiary with no 20 to 50 percent ownership.

Note 5: Mitsubishi Corporation is other affiliated company holding Net One Systems' corporate shares.

Basic Management Policies

Since establishment, our management ideology was based on contribution to the society, emphasis on shareholders, and employee satisfaction and our basic management policies are, 1) acquiring most advanced technology and aim to become the leading network integration company, 2) flexibly adjust in a and 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 improving the profit structure and capital efficiency; this will be achieved based on highly advanced technical skills and through offering business model that match the needs of the society and demand of the time, and through efforts to expand into new market.

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

In order to answer to the demand of the expanding market in a comprehensive and pertinent manner, Net One Systems Group's basic management policy established four business segments and each company in Net One Systems Group was assigned different core business to increase specialization of technical skill while enabling mutual collaboration to provide comprehensive solution to customer's network deployment/usage.

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

Also, as each of the group company aims to further develop technical skill and know-how, Net One Systems will take the leading part to make capital investments and establishing partnerships with companies or business sector with close ties with Net One Systems Group and thereby aim to strengthen and expand our group.

As our Group focuses on highly public Internet related businesses, management policy of each group companies is based on the principle of neutrality in business transactions, autonomy and transparency of management system, and business structure that conforms to the global standard.

Operating Results

1. Overview of the Interim Period

Recently, although Japan's economy is gradually recovering in relation to increase in capital expenditure, the future is yet uncertain as consumer spending lags while there are other factors as uncertainty in the future of US economy and rise of crude oil price.

On the other hand, in addition to active IT investments lead by telecommunications companies and major providers, which investments were the driving force of economic growth, investments by financial firms as well as business enterprises, iDC (Internet Data Center) have further increased. As the steady demand continued in enterprise market and service provider market, there was a great demand on the high speed networking equipment, which is the core business of our company.

Under this environment, current interim consolidated business performance for Orders Accepted was 28,638M yen and Sales was 21,166M yen. For Sales based on Product Category, Network Equipment products and Networking Computing Products accounted for 16,601M yen, Service Products accounted for 2,950M yen, and Media Products accounted for 1,614M yen. Operating Profit was 1,399M yen, Ordinary Profit was 1,380M yen, and Current Net Profit was 659M yen. Also, End of Current Interim Term of Backlog of Unfilled Orders was 17,523M yen.

As there were no companies that were subject to consolidated statements, there are no comparison data. Business Performance on non-consolidated basis for Orders Accepted was 28,228M yen (66.7% increase compared to the previous interim term) and Sales was 21,011M yen (54.0% increase compared to the previous interim term). For Sales based on Product Category, Network Equipment Products and Network Computing Products accounted for 16,599M yen (59.9% increase compared to the previous interim term), Service Products accounted for 2,940M yen (30.4% increase compared to the previous interim term), and Media Products accounted for 1,471M yen (46.7% increase compared to the previous interim term.) Operating Profit was 1,447M yen (261.5% increase compared to the previous interim term) and Ordinary Profit was 1,451M yen (256.2% increase compared to the previous interim term), and Current Net Profit was 700M yen (200.0% increase compared to the previous interim term.) Also, End of Current Interim Term of Backlog of Unfilled Orders was 17,321M yen (108.8% increase compared to the previous interim term.)

2. Overlook for the entire FY 2000

As the market for the latter half of the FY is expected to evolve steadily in a similar manner as current interim term, following FY business performance is expected.

		Sales Million Yen/(%)	Ordinary Profit Million Yen/(%)	Net Income for FY Million Yen/(%)
Consolidated	Current FY (Apr. 2000 to Mar. 2001)	49,000	3,900	3,800
	Previous FY (Apr. 1999 to Mar. 2000)	34,804	2,698	1,322
	Increase/Decrease Ratio	40.8%	44.5%	187.4%
Non- consolidated	Current FY (Apr. 2000 to Mar. 2001)	48,500	3,800	3,700
	Previous FY (Apr. 1999 to Mar. 2000)	34,327	2,710	1,338
	Increase/Decrease Ratio	41.3%	40.2%	176.5%

Current Net Income forecast includes share exchange profit (Extraordinary Profit) of 3,015M yen.

Interim Consolidated Financial Statements

(1) Interim Consolidated Balance Sheet

(unit: rounded down to the nearest 1,000 yen)

	End of Current Interim Period (as of Sept. 30, 2000)		End of Previous FY (as of Mar. 31, 2000)	
	Amount	Ratio	Amount	Ratio
ASSETS				
Current Assets	32,704,028	87.1	22,726,692	83.8
Cash and Deposits	3,198,578		4,985,998	
Account Receivables ar	12,941,349		11,087,055	
Marketable Securities	-		90,311	
Inventories	15,422,053		5,713,366	
Deferred Income Tax	182,716		302,580	
Others	997,117		634,025	
Allowance for Doubtful Receivables	37,786		86,645	
Fixed Assets	4,830,070	12.9	4,390,390	16.2
1 . Tangible Fixed Assets	2,158,553	5.8	1,887,230	7.0
Tools, Fixtures, and Equipment	1,393,846		1,302,071	
Others	764,706		585,158	
2 . Intangible Fixed Assets	154,510	0.4	172,852	0.6
Consolidation Adjustments Account	18,540		21,189	
Others	135,969		151,663	
3 . Investment and other Assets	2,517,005	6.7	2,330,307	8.6
Investment Securities	1,764,040		1,073,869	
Deferred Income Tax	5,445		197,208	
Others	747,519		1,059,329	
Allowance for Doubtful Receivables	-		100	
Total Assets	37,534,098	100.0	27,117,082	100.0
LIABILITIES				
Current Liabilities	20,867,183	55.6	11,682,816	43.1
Account Payables and Note Receivables	5,241,706		4,545,344	
Short Term Debt	11,850,000		2,600,000	
Corporate Bond Redeemable within 1 year	-		10,000	
Payment Due	1,352,101		1,401,785	
Accrued Corporation Tax, Etc.	518,537		1,298,697	
Allowance for Bonus	465,955		303,800	
Others	1,438,883		1,523,189	
Fixed Liabilities	277,412	0.8	137,236	0.5
Allowance for Employee Severance Benefits	-		14,321	
Allowance for Retirement Benefits	157,304		-	
Allowance for Bonus for Retiring Directors	120,038		122,780	
Others	70		135	
Total Liabilities	21,144,596	56.4	11,820,053	43.6
MINORITY SHAREHOLDERS' EQUITY				
Minority Shareholders' Equity	17,672	0.0	-	-
SHAREHOLDERS' EQUITY				
Capital Stock	2,331,445	6.2	2,244,333	8.3
Additional Paid-in Capital	9,290,862	24.8	9,203,630	33.9
Consolidated Surplus	4,389,860	11.7	3,849,066	14.2
Difference from Securities Revaluation	388,036	1.0	-	-
Repurchased Stock	16,400,205	43.7	15,297,029	56.4
Repurchased Stock	28,376	0.1	-	-
Total Shareholders' Equity	16,371,828	43.6	15,297,029	56.4
Total Liabilities, Minority Shareholders' Equity, Shareholders' Equity	37,534,098	100.0	27,117,082	100.0

Note: As this is the first Consolidated Interim Financial Statements, previous FY's Interim data is not available.

(2) Interim Consolidated Income Statement

(unit: rounded down to the nearest 1,000 yen)

	Current Interim Period (Apr. 1, 2000 to Sept. 31, 2000)		Previous FY (Apr. 1, 1999 to Mar. 31, 2000)	
	Amount	Ratio	Amount	Ratio
		%		%
Sales	21,166,357	100.0	34,804,071	100.0
Cost of Goods Sold	15,222,948	71.9	24,136,933	69.4
Gross Profit on Sales	5,943,409	28.1	10,667,137	30.6
Sales Expense and Administrative Expense	4,543,770	21.5	7,988,772	22.9
Operating Profit	1,399,638	6.6	2,678,364	7.7
Non-operating Income	34,002	0.2	56,463	0.2
Interest Earned	1,863		21,131	
Dividend Earned	525		910	
Profit on Sales of Securities Sold	9,289		257	
Dividend on Group Insurance	6,362		6,438	
Sales Promotion Premium	5,000		10,000	
Commision Deposit for Acquisition of Fractional Shares	4,489		-	
Others	6,473		17,726	
Non-operating Expense	52,822	0.3	36,373	0.1
Interest Expense	15,135		25,744	
Write off of Inaugural Expense	1,687		-	
Write off of Business Commencement Expense	12,407		-	
Stock Issuing Expense	9,818		-	
Exchange Loss	10,225		-	
Others	3,546		10,628	
Ordinary Profit	1,380,819	6.5	2,698,454	7.8
Extraordinary Profit	49,400	0.2	6,800	0.0
Reversal From Allowance for Doubtful Account	49,400		6,800	
Extraordinary Loss	252,846	1.1	346,824	1.0
Loss from Removal of Fixed Assets	6,335		13,012	
Deferred Allowance for Retirement Benefit (Adjusted for the change in Accounting Method)	154,120		-	
Deferred Allowance for Bonus for Retiring Directors	2,158		-	
Loss from Revaluation of Investment Securities	-		99,999	
Loss from Exchange of Investment Securities	-		152,766	
Loss from Revaluation of Telephone Subscription Right	-		15,510	
Loss from Revaluation of Golf Membership	-		11,273	
Partial Relocation of Headquarters Expense	90,232		-	
Restoration after Partial Relocation of the Headquarters Expense	-		54,260	
Current Income Before Tax, etc.	1,177,372	5.6	2,358,430	6.8
Corporate Tax, Residence Tax, & Business Tax	503,235	2.4	1,526,193	4.4
Adjustment to Corporate Tax, Etc.	30,058	0.1	490,107	1.4
Loss from Minority Shareholders	15,327	0.0	-	-
Current Net Profit	659,405	3.1	1,322,345	3.8

Note: As this is the first Consolidated Interim Financial Statements, previous FY's Interim data is not available.

(3) Consolidated Interim Surplus Statement

(unit: rounded down to the nearest 1,000 yen)

	Current Interim Period	Previous FY
	Apr. 1, 2000 to Sept. 31, 2000	(Apr. 1, 1999 to Mar. 31, 2000)
	Amount	Amount
Beginning Balance of Consolidated Surplus	3,849,066	2,228,532
Beginning Balance of Consolidated Surplus	3,849,066	2,218,850
Tax Effect Adjustment for Previous FY	-	9,681
Consolidated Surplus Increase	-	389,800
Reversal of Additional Paid-in Capital	-	389,800
Consolidated Surplus Decrease	118,612	91,611
Dividends	79,612	78,611
Directors' Bonus	39,000	13,000
Current Net Income	659,405	1,322,345
Consolidated Outstanding Surplus at End of Interim Period	4,389,860	3,849,066

Note: As this is the first Consolidated Interim Financial Statements, previous FY's Interim data is not available.

(4) Consolidated Cash Flow Statement

(unit: rounded down to the nearest 1,000 yen)

	Current Interim Period (Apr. 1, 2000 to S ept. 30, 2000)	Previous FY (Apr. 1, 1999 to Mar. 31, 2000)
	Amount	Amount
I Operating Activities:		
Current Net Income Before Tax	1,177,372	2,358,430
Depreciation Expense	422,782	913,068
Depreciation Amount for Consolidation Adjustment Account	2,648	5,297
Change in Allowance for Employee Severance Benefits	△ 14,321	1,957
Increase in Allowance for Employee Retirement Benefits	157,304	—
Change in Allowance Bonus for Retiring Directors	△ 2,741	29,500
Increase in Allowance for Bonus	162,155	139,255
Change in Allowance for Doubtful Receivables	△ 48,958	2,033
Interest Received and Dividends Received	△ 2,388	△ 22,041
Interest Payment	15,135	25,744
Increase in Account Receivables	△ 1,488,532	△ 1,509,519
Increase in Inventories	△ 9,700,794	△ 672,887
Increase in Current Assets	△ 105,364	△ 422,232
Increase in liability for Purchases	690,410	1,219,393
Increase in Consumption Tax payable	—	164,382
Change in Other Current Liabilities	△ 529,116	1,800,846
Payment Amount of Directors' Bonus	△ 39,000	△ 13,000
Others	102,062	△ 100,795
Sub-total	△ 9,201,345	3,919,432
Amount Received for Interest and Dividends	2,394	26,778
Amount Paid for Interest	△ 20,501	△ 25,764
Amount Paid for Corporation Tax	△ 1,283,394	△ 193,728
Other Amount Paid	△ 137,307	—
Other Amount Received	—	30,462
Operating Activities	△ 10,640,154	3,757,180
II Investing Activities:		
Income from Sell-off of Securities	—	△ 6,774
Expenditure from Loan on Short Term Loan	△ 16,340	800
Income from Recovery of Short term Loan	6,240	103,089
Expenditure from Acquisition of Tangible Fixed Assets	△ 661,518	△ 856,814
Expenditure from Acquisition of Intangible Fixed Assets	△ 17,519	△ 6,668
Expenditure from Acquisition of Investment Securities	△ 35,000	△ 512,658
Income from Sell-off of Investment Securities	33,000	—
Expenditure from Amount Paid for Investment	△ 21,390	△ 10,988
Income from Acquisition of Newly Consolidated Subsidiaries	—	135,419
Expenditure from Loan on Long Term Loan	△ 17,100	△ 13,000
Income from Recovery of Long Term Loan	4,559	16,706
Others	174,389	△ 114,833
Investing Activities	△ 550,680	△ 1,253,773
III Financing Activities:		
Income from Short Term Debts Payable	9,250,000	1,450,000
Expenditure from Redemption of Short Term Debts Payable	—	△ 2,704,000
Expenditure from Redemption of Corporate Bond	△ 10,000	—
Income from Issuing Corporate Shares	174,224	166,833
Expenditure from Issuance of New Corporate Shares in relation to Stock Split	△ 9,818	—
Expenditure from Reacquisition of Corporate Shares	△ 22,154	—
Payment for Dividends	△ 78,838	△ 78,321
Financing Activities	9,303,414	△ 1,165,488
IV Conversion Difference in Cash and Cash Equivalents	0	—
V Increase in Cash and Cash Equivalents	△ 1,887,419	1,337,918
VI Beginning Balance of Cash and Cash Equivalents	4,985,998	3,648,079
VII Increase in Cash and Cash Equivalents related to New Consolidation	100,000	—
VIII Ending Balance of Cash and Cash Equivalents	3,198,578	4,985,998

(unit: rounded down to the nearest 1,000 yen)

Current Interim Period (Apr. 1, 2000 to Sept. 30, 2000)	Previous FY (Apr. 1, 1999 to Mar. 31, 2000)
(1) Relationship Between Interim Period Ending Balance for Cash and Cash Equivalents in Consolidated Balance Sheet.	(1) Relationship Between Interim Period Ending Balance for Cash and Cash Equivalents in Consolidated Balance Sheet.
(As of Sept. 30, 2000)	(As of Mar. 31, 2000)
Cash and Deposit Account 3,198,578	Cash and Deposit Account 4,985,998
Cash and Cash Equivalents 3,198,578	Cash and Cash Equivalents 4,985,998
	(2) Following indicates the breakdown of Assets and Liabilities at the time of consolidation with Media Communication Systems K.K. which was acquired through acquisition of shares. Also following indicates the relationship between Price of Acquired Shares and Expenditure(net amount) related to acquisition.
	Current Assets 469,580
	Fixed Assets 76,708
	Consolidation Adjustments Account 26,486
	Current Liabilities Δ 560,410
	Fixed Liabilities Δ 12,364
	Price of Acquired Shares 0
	Cash and Cash Equivalents Δ 135,419
	Difference: Expenditure (Income) from Acquisition Δ 135,419

Significant Matters related to Interim Consolidated Financial Report

1. Matters related to Consolidation
- (1) Number of Consolidated Subsidiaries 2
- Name of Major Consolidated Subsidiaries Media Communication Systems K.K.
Network Service And Technologies Co., Ltd.
With its establishment in April 2000, Network Service And Technologies Co., Ltd. is included as a consolidated subsidiary from the current consolidated interim period.
- (2) Name, etc. of major non-consolidated subsidiary
Name of major non-consolidated subsidiary Tennoz Initiative Inc.
(reason for not including in the consolidation)
Non-consolidated subsidiary is small scale and does not significantly affect Total Assets, Sales, Interim Net Profit/Loss (comparable to the amount of ownership) and Surplus (comparable to the amount of ownership.) of Interim Consolidated Financial Statements
2. Matters related to application of Equity Method
- Non-consolidated subsidiary (Tennoz Initiative Inc.) and affiliated company (SkyCom Corporation) which do not apply equity method have been excluded from the scope of equity method because they impose minimal influence on Interim Consolidated Net Income and Consolidated Surplus and have little relevance on the whole.
3. Matters related to (Interim) Accounting Period for Consolidated Subsidiaries
- Interim account closing date for all consolidated subsidiaries is in accordance with the date of Interim Consolidated account closing date.
4. Matters related to Accounting Policies
- (1) Significant asset valuation standard and valuation method
- Securities
Securities of subsidiaries and affiliated companies
Cost accounting method using moving average
- Other Securities
Securities with market value Market value method based on market value on interim closing date
(Accounting for difference in valuation is total direct casting equity method and for cost of products sold, moving average method is applied.)
- Securities without market value Cost accounting method using moving average method

- | | |
|-------------------|--|
| Inventory assets | |
| Merchandises | Cost accounting method using moving average method |
| Uncompleted works | Cost accounting method using individual |
| Derivative | Market value method |
- (2) Significant method for depreciation of depreciation asset
- | | |
|-------------------------------|--|
| Tangible fixed assets | |
| Assets excluding lease assets | Fixed percentage method in corporate tax law |
| | As an exception, for maintenance network equipment of tools, fixtures and equipment, fixed percentage method based on useful life (3 years) is applied |
| Lease assets | Fixed percentage method |
| Intangible fixed assets | |
| Software for internal use | Straight line method based on corporate usability period (5 years) |
| Software for sales | Straight line method based on useful life (3 years) |
- (3) Significant accounting standard for allowance
- Allowance for doubtful receivables
To prepare for loss from uncollectable receivables, for general uncollectable credits, calculation based on actual uncollectable rate is budgeted and for special receivables with higher uncertainty, probability of collectivity is considered on individual cases and prospective uncollectable amount is budgeted.
- Allowance for bonus
Expenditure from payment of bonus to employees is recorded based on payment prospect.
- Allowance for retirement benefits
To prepare for employee severance benefits, the amount expected to be accrued at the end of current interim consolidated accounting term is budgeted based on liabilities from prospective employee retirement benefits and prospective pension asset end of current consolidated FY
- Allowance for bonus for retiring directors
To prepare for bonus for retiring directors, end of interim period payment amount is budgeted based on director retiring bonus
With the establishment of director retirement bonus policy, among the consolidated subsidiaries, Media Communication Systems K.K. has commenced from current interim consolidated accounting term, budgeting for allowance in accordance with the policy.
In accordance with this change, 2,450 thousand yen accrued in current interim consolidated FY will be budgeted to sales expense and general administrative expense and previous FY allowance amount of 2,158 thousand yen is budgeted as extraordinary loss.
As a result, in comparison to the previous method, ordinary profit and net income before tax adjustments have decreased by 2,450 thousand yen and 4,608 thousand yen respectively.
- (4) Policy on conversion of significant assets and liabilities in foreign currency to local currency

Account receivables and account payables in foreign currencies are converted to yen at spot exchange rate and exchange difference is processed as gain or loss

- (5) Accounting method for significant lease transactions
Except for lease products where ownership is expected to transfer to the debtor, lease transactions are in conformance with accounting policy of general lease transaction is applied.
- (6) Significant hedge accounting method
Hedge accounting method
Carry over hedge accounting is applied, except when requirements for allocation procedure are met, allocation procedure is applied.
Hedge Method and Subject
- | <u>Hedge Method</u> | <u>Subject to Hedge</u> |
|---------------------|---------------------------------------|
| Exchange Contract | Planned foreign currency transactions |
- Hedge policy
In accordance with limitation on transactions and transaction authority in corporate administrative provisions, risk hedge for currency fluctuation of foreign liabilities relating to business assets is applied.
- (7) Other significant items for creating interim consolidated financial statements
Accounting for consumption tax, etc.
Accounting for consumption tax and local consumption tax applies before tax method.

5. Scope of funds in interim consolidated cash flow statement

Funds (cash and cash equivalents) in interim consolidated cash flow statement are cash on hand, deposits that may be withdrawn on a temporary basis, and short term investment which can easily be cashed and imposes minimal price fluctuation risk as maturity is within 3 months from the date of receipt of cash.

Additional Information

1. Accounting for Retirement Benefits

From current consolidated interim period, accounting policy indicated in "Opinion on establishment of accounting policy for retirement benefits" (Business Accounting Council, June 16, 1998) is applied for retirement benefits. As results, in comparison to the prior accounting method, ordinary income increased by 10,897 thousand yen and interim net income before tax, etc. decreased by 143,222 thousand yen. Also, amount payable related to past service liability for allowance for employee retirement benefits and corporate pension plan is included in allowance for employee severance benefits.

2. Accounting for Financial Products

From current consolidated interim period, accounting policy indicated in "Opinion on establishment of accounting policy for financial products" (Business Accounting Council, Jan. 22, 1999) is applied and changes have been made to the valuation policy of securities. There are no effects on profit/loss resulting from this change. Also, after considering the purpose of security holding at beginning of the term, all financial products have been classified as investment securities. As results, current assets for securities decreased by 90,311,000 yen and investment securities increased by same amount.

3. Accounting for Transactions in Foreign Currencies

From this current consolidated interim period, the revised accounting procedure standard for transactions in foreign currencies as indicated in "Opinion on revision of standard of accounting procedure for transactions in foreign currencies" (Business Accounting Council, Oct. 22, 1999) is applied. There are no effects on profit/loss resulting from this change.

Notable Matters

(Matters related to Interim Consolidated Balance Sheet)

(unit: rounded down to the nearest 1,000 yen)

	End of Current Interim Consolidated Period	End of Previous Consolidated FY
Net Depreciation of Tangible Fixed Assets	2,725,426	2,408,337

(Matters related to Interim Consolidated Income Statement)

Major Items in Sales Expense and Administrative Expense

(unit: rounded down to the nearest 1,000 yen)

	Current Interim Consolidated Period	Previous Consolidated FY
Allowance for Compensation	1,476,497	2,647,192
Allocation of Allowance for Bonus	423,978	271,892
Allocation of Allowance for Employee Retirement Benefits	-	2,030
Allocation of Allowance for Employee Severance Benefits	51,426	-
Approved Retirement Annuity Premium	-	54,143
Allocation of Allowance for Bonus for Retiring Directors	16,900	29,500
Rental Expense	517,352	761,294
Expense for Depreciation	380,773	745,229
Outsourcing Expense	306,824	779,517
Allocation of Allowance for Doubtful Receivables	441	8,833
Amount for Consolidation Adjustment Depreciation	2,648	5,297

(Matters related to Consolidated Interim Cash Flow)

Amount in items of cash and cash equivalents in balance at end of Interim period and Interim Consolidated Balance Sheet

(unit: rounded down to the nearest 1,000 yen)

	Current Interim Consolidated Period	Previous Consolidated FY
Cash and Deposit Account	3,198,578	4,985,998
Cash and Cash Equivalents	3,198,578	4,985,998

(Significant Subsequent Events)

Current Interim Period (Apr. 1, 2000 to Sept. 30, 2000)

1. Circumstances and reasons	With the purchase of ArrowPoint Communications, Inc. by Cisco Systems, Inc., ArrowPoint Communications Inc. shares owned by Net One Systems Co., Ltd. was transferred to Cisco Systems, Inc. shares.
2. Name of the company to which the shares were converted	Cisco Systems, Inc.
3. Category of exchange assets and intent prior to exchange	254,364 shares of ArrowPoint Communications, Inc shares were acquired for introduction of new products and expansion into new market.
4. Date of exchange	October 10, 2000 (shares delivery date)
5. Exchange Price	By allocating 2.1218 shares of Cisco Systems, Inc. for 1 share of ArrowPoint Communications, Inc., shares owned by Net One Systems Co., Ltd. became 539,709 shares and acquisition price became 3,151,099 thousand yen. As 3,015,696 thousand yen of profit from exchange of investment securities took place, this amount is to be accrued in extraordinary profit at end of March 2001 accounting period.

(Lease Transactions)

(unit: 1,000 yen)

	Current Consolidated Interim Term (Apr. 1, 2000 to Sept. 30, 2000)	Previous Consolidated FY (Apr. 1, 1999 to Mar. 31, 2000)																																
All finance lease transactions excluding leased products where title is expected to transfer to the debtor.	<p>1. Debtor</p> <p>(1) Acquisition Amount Value, Net Total Depreciation Value, and Balance at End of Interim Term Value for Lease Products</p> <p style="text-align: center;">(unit: 1,000 yen)</p> <table border="1"> <thead> <tr> <th></th> <th>Acquisition Amount Value</th> <th>Net Total Depreciation Value</th> <th>Balance at End of Interim Term Value</th> </tr> </thead> <tbody> <tr> <td>Tools/Fixtures& Equipment</td> <td>315,892</td> <td>141,661</td> <td>174,231</td> </tr> <tr> <td>Others: Tangible Fixed Assets</td> <td>6,113</td> <td>725</td> <td>5,388</td> </tr> <tr> <td>Total</td> <td>322,006</td> <td>142,387</td> <td>179,619</td> </tr> </tbody> </table>		Acquisition Amount Value	Net Total Depreciation Value	Balance at End of Interim Term Value	Tools/Fixtures& Equipment	315,892	141,661	174,231	Others: Tangible Fixed Assets	6,113	725	5,388	Total	322,006	142,387	179,619	<p>1 . Debtor</p> <p>(1) Acquisition Amount Value, Net Total Depreciation Value, and Balance at End of Term Value for Lease Products</p> <p style="text-align: center;">(unit: 1,000 yen)</p> <table border="1"> <thead> <tr> <th></th> <th>Acquisition Amount Value</th> <th>Net Total Depreciation Value</th> <th>Balance at End of Term Value</th> </tr> </thead> <tbody> <tr> <td>Tools/Fixtures& Equipment</td> <td>334,313</td> <td>161,721</td> <td>172,592</td> </tr> <tr> <td>Others: Tangible Fixed Assets</td> <td>2,317</td> <td>321</td> <td>1,995</td> </tr> <tr> <td>Total</td> <td>336,630</td> <td>162,042</td> <td>174,587</td> </tr> </tbody> </table>		Acquisition Amount Value	Net Total Depreciation Value	Balance at End of Term Value	Tools/Fixtures& Equipment	334,313	161,721	172,592	Others: Tangible Fixed Assets	2,317	321	1,995	Total	336,630	162,042	174,587
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<p>(3) Interim Term's Payable Lease Fee, Depreciation Value, and Interest Payable Value</p> <p style="text-align: right;"> Payable Lease Fee 37,019 Depreciation Value 34,521 Interest Payable Value 2,573 </p>	<p>(3) FY's Payable Lease Fee, Depreciation Value, and Interest Payable Value</p> <p style="text-align: right;"> Payable Lease Fee 69,122 Depreciation Value 64,303 Interest Payable Value 5,572 </p>																																	
<p>(4) Calculation Method of Depreciation Value, and Interest Value</p> <p style="text-align: center;"> Calculation Method of Depreciation Value Straight-line Method Calculation Method of Interest Value Interest Method </p>	<p>(4) Calculation Method of Depreciation Value, and Interest Value</p> <p style="text-align: center;"> Calculation Method of Depreciation Value Straight-line Method Calculation Method of Interest Value Interest Method </p>																																	

(unit:1000 yen)

	Current Consolidated Interim Term (Apr. 1, 2000 to Sept. 30, 2000)	Previous Consolidated FY (Apr. 1, 1999 to Mar. 31, 2000)																																
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<table> <tbody> <tr> <td> Lease Fee Received</td> <td>42,449</td> </tr> <tr> <td> Depreciation Expense</td> <td>32,884</td> </tr> <tr> <td> Interest Received Value</td> <td>3,556</td> </tr> </tbody> </table>	Lease Fee Received	42,449	Depreciation Expense	32,884	Interest Received Value	3,556	<table> <tbody> <tr> <td> Lease Fee Received</td> <td>82,006</td> </tr> <tr> <td> Depreciation Expense</td> <td>63,898</td> </tr> <tr> <td> Interest Received Value</td> <td>8,299</td> </tr> </tbody> </table>	Lease Fee Received	82,006	Depreciation Expense	63,898	Interest Received Value	8,299																					
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Segment Information

1 . Segment Information by Business Category

Current Consolidated Interim Period (April 1, 2000 to September 30, 2000)

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

Previous Consolidated FY (April 1, 1999 to March 31, 2000)

Same as above.

2 . Segment Information by geographic area

Current Consolidated Interim Period (April 1, 2000 to September 30, 2000)

As there are no consolidated subsidiary or major offices outside of Japan, there is no pertaining information.

Previous Consolidated FY (April 1, 1999 to March 31, 2000)

Same as above.

3 . Overseas Sales

Current Consolidated Interim Period (April 1, 2000 to September 30, 2000)

As overseas sales account for less than 10% of the consolidated sales, they have been abbreviated.

Previous Consolidated FY (April 1, 1999 to March 31, 2000)

Same as above.

As Net One Systems Group segment information is limited, sales, amount of orders accepted and backlog of unfilled orders are indicated by their former product category. Also, as the consolidated financial statements for previous interim accounting period was not created, the Net One Systems Co., Ltd.'s figures are provided as a reference.

Sales by Product Category

(unit: rounded down to the nearest 1,000 yen)

[Reference]

	Current Consolidated Interim Period (Apr. 1, 2000 to Sept. 30, 2000)		Previous Consolidated FY (Apr. 1, 2000 to Mar. 31, 2000)		Previous Interim Period (Non-consolidated) (Apr. 1, 1999 to Sept. 30, 1999)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
		%		%		%
Network Equipment Products	16,293,959	77.0	26,572,039	76.4	10,279,169	75.3
Network Computing Products	307,260	1.5	329,764	0.9	104,917	0.8
Media Products	1,614,673	7.6	2,224,326	6.4	1,002,990	7.4
Service Products	2,950,464	13.9	5,677,940	16.3	2,255,337	16.5
Total	21,166,357	100.0	34,804,071	100.0	13,642,415	100.0

Amount of Orders Accepted by Product Category

(unit: rounded down to the nearest 1,000 yen)

[Reference]

	Current Consolidated Interim Period (Apr. 1, 2000 to Sept. 30, 2000)		Previous Consolidated FY (Apr. 1, 2000 to Mar. 31, 2000)		Previous Interim Period (Non-consolidated) (Apr. 1, 1999 to Sept. 30, 1999)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
		%		%		%
Network Equipment Products	22,156,911	77.4	30,909,399	77.6	12,571,857	74.2
Network Computing Products	491,221	1.7	337,948	0.8	117,063	0.7
Media Products	1,777,953	6.2	2,342,530	5.9	951,305	5.6
Service Products	4,212,396	14.7	6,263,869	15.7	3,296,270	19.5
Total	28,638,483	100.0	39,853,747	100.0	16,936,495	100.0

Backlog of Unfilled Orders by Product Category

(unit: rounded down to the nearest 1,000 yen)

[Reference]

	End of Current Consolidated Interim Period (as of Sept. 30, 2000)		End of Previous FY (as of Mar. 31, 2000)		End of Previous Interim Period (Non-consolidated) (as of Sept. 30, 1999)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
		%		%		%
Network Equipment Products	12,661,598	72.3	6,798,647	67.6	4,753,974	57.3
Network Computing Products	243,304	1.4	59,343	0.6	63,304	0.8
Media Products	673,068	3.8	509,788	5.1	339,900	4.1
Service Products	3,945,355	22.5	2,683,422	26.7	3,138,426	37.8
Total	17,523,326	100.0	10,051,201	100.0	8,295,605	100.0

Securities

(Current Consolidated Interim Period) (as of Sept. 30, 2000)

1 Securities having market value and intended to be held for full term

(unit: rounded down to the nearest 1,000 yen)

	Amount on Consolidated Interim Period Balance Sheet	Market Value	Difference
(1) Government/Local Government Bond,	-	-	-
(2) Corporate Bond	-	-	-
(3) Others	-	-	-
Total	-	-	-

2 Other securities having market value

(unit: rounded down to the nearest 1,000 yen)

	Acquisition Cost	Amount on Consolidated Balance Sheet	Difference
(1) Securities	233,945	928,773	694,828
(2) Bonds			
Government/Local Government Bond,	-	-	-
Corporate Bond	-	-	-
Others	-	-	-
(3) Others	-	-	-
Total	233,945	928,773	694,828

3 Significant "Securities" without market value (excluding above 1.)

(unit: rounded down to the nearest 1,000 yen)

	Amount on Consolidated Balance Sheet
(1) Bonds intended to be held for full term	-
(2) Other Securities	
Securities of unlisted companies (excluding over- the-counter shares)	730,892
Total	730,892

(reference)

(note) As previous Interim Term's Consolidated Interim Financial Statements are not available, non-consolidated figures are indicated as a reference.

(unit: rounded down to the nearest 1,000 yen)

	End of Previous Consolidated Accounting Year (as of Mar. 31, 2000)			End of Previous Interim Accounting Year (Non-consolidated) (as of Sept. 30, 1999)		
	Amount on Consolidated Balance Sheet	Market Value	Loss/Profit from Revaluation	Amount on Interim Balance Sheet	Market Value	Loss/Profit from Revaluation
Items in Current Assets						
Securities	90,311	177,705	87,393	90,311	116,316	26,004
Bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Sub-total	90,311	177,705	87,393	90,311	116,316	26,004
Items in Fixed Assets						
Securities	143,633	4,110,758	3,697,125	-	-	-
Bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Sub-total	143,633	4,110,758	3,697,125	-	-	-
Total	233,945	4,288,464	4,054,518	90,311	116,316	26,004

(note)

1. Calculation Method of Market Value

(1) over-the-counter securities

Prices indicated by Japan Social Securities Dealers' Association

(2) over-the-counter securities of companies abroad end price indicated by NASDAQ

2. Securities not disclosed in Consolidated Balance Sheet and Recorded as Fixed Assets in Consolidated Balance Sheet and Interim Balance Sheet

	End of Previous Consolidated FY	End of Previous Interim FY (Non-consolidated)
Securities of unlisted companies (excluding over-the-counter shares)	930,236 Thousand Yen	1,228,677 Thousand Yen

Contract Fee, Etc. of Derivative Transactions, Market Value and Profit/Loss from Valuation

As hedge accounting is applied to all derivative transactions in current consolidated interim term, there are no items that apply.

(reference)

(note) As Previous Interim Term's Consolidated Interim Financial Statements are not available, non-consolidated figures are indicated as reference.

(unit: rounded down to the nearest 1,000 yen)

[reference]

		End of Previous Consolidated FY				End of Previous Interim FY (Non-consolidated)			
		As of Mar. 31, 2000				as of Sept. 30, 1999			
		Contract Amount, etc.	Market Value	Profit/Losses from Valuation	Amount over 1 year	Contract Amount, etc.	Market Value	Profit/Losses from Valuation	Amount over 1 year
Non-market Transactions	Exchange Contract Transactions								
Total		1,971,963	-	1,976,094	4,131	2,866,777	-	2,744,715	122,061

(note) 1. Accounting Method for Market Value

Market Value for End of Previous FY and End of Interim FY apply forward quotation.

2. As Exchange Contract is attached to Foreign Currency Receivables and Payables, etc., for yen currency amount which was determined under Foreign Currency Receivables and Payables, etc. and already disclosed in Consolidated Balance Sheet and Interim Balance Sheet using applicable yen amount, have been excluded from disclosure.