May 26, 2014

To Our Shareholders:

Disclosure on the Internet in conformity with Laws, Regulations and the Articles of Incorporations

Notes to Consolidated Financial Statements
Notes to Non-Consolidated Financial Statements

For the 27th Fiscal Year
April 1, 2013 to March 31, 2014

Net One Systems Co., Ltd.

The Company provides "Notes to Consolidated Financial Statements" and "Notes to Non-Consolidated Financial Statements" to its shareholders by posting them on its website (http://www.netone.co.jp/) in accordance with the provisions of laws, regulations and the Articles of Incorporation.

Notes to consolidated financial statements

I. Significant matters related to the basis of preparation of consolidated financial statements

1. Matters related to the scope of consolidation

(1) Number of consolidated subsidiaries 3 companies

Names of consolidated subsidiaries Net One Partners Co., Ltd.
Xseed Co., Ltd.
System Solution Engineering K.K.

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

Names of non-consolidated subsidiaries Net One Systems USA, Inc.
Net One Systems Singapore Pte. Ltd.

(Reason for excluding from the consolidation)

Those non-consolidated subsidiaries are small in size and their total assets, revenue, the net income or loss for the Company's equity interest, and retained earnings for the Company's equity interest do not have a significant effect on the consolidated financial statements.

2. Matters related to application of equity method

(1) Number of affiliates applying equity method 1 company

Name of company JBS Technology Inc.

(2) Non-consolidated subsidiaries (Net One Systems USA, Inc. and Net One Systems Singapore Pte. Ltd.) are excluded from the scope of application of the equity method, as their net income or loss and retained earnings for the Company's equity interest do not have a significant effect on the consolidated financial statements and their impact are immaterial as a whole.

3. Matters related to accounting period of consolidated subsidiaries

The fiscal year for Xseed Co., Ltd. ends on the final day of December each year and the fiscal year for System Solution Engineering K.K. ends on the final day of February each year. To prepare the consolidated financial statements, the financial statements of the two consolidated subsidiaries as of and for their respective fiscal year-ends are used, and necessary adjustments are made in the consolidated financial statements for significant transactions that occur between these fiscal year-ends and the consolidated closing date.

4. Matters related to accounting policies

(1) Basis and method of valuation for significant assets

I. Securities

Available-for-sale securities

Securities with market value	Stated at market value based upon market value on the closing date (Net unrealized holding gains or losses, net of the applicable income taxes, are directly included in a component of net assets. The cost of securities sold is measured by the moving average method.)
Securities without market value	Stated at cost based upon the moving average method, or at cost amortized or accumulated over the maturity based upon the straight-line method

II. Derivatives	Stated at market value

III. Inventories

Merchandise	Stated at cost based upon the moving average method (The balance sheet amount is adjusted by writing down the book value where the profitability declines.)
Costs on uncompleted construction contracts	Stated at cost based upon the specific identification method (The balance sheet amount is adjusted by writing down the book value where the profitability declines.)

(2) Depreciation method for significant depreciable assets

I. Property, plant and equipment (excluding lease assets)

Declining balance method is applied for the Company and its consolidated subsidiaries in Japan.

The major useful lives of assets are:

Buildings	3-31 years
Tools, furniture and fixtures	2-20 years

II. Intangible assets (excluding lease assets)

Straight line method is applied for the Company and its consolidated subsidiaries in Japan.

The major useful lives of assets are:

Software for own use	5 years
Software for sale	3 years

III. Lease assets

Lease assets in finance leases that transfer ownership to the lessee

Lease assets are depreciated using the same manner to the accounting for the noncurrent assets owned by the Company.

Lease assets in finance leases that do not transfer ownership to the lessee

Lease assets are depreciated using the straight line method over the corresponding lease terms as useful lives with their residual values to be zero.

Of finance leases that do not transfer ownership to the lessee, the lease transactions whose inception dates are on or before March 31, 2008 are accounted for in a similar manner to the accounting for ordinary rental transactions.

(3) Basis for significant reserves

I. Allowance for doubtful accounts

Allowance for doubtful accounts is recorded to provide reserve for possible losses on receivables based on the historical uncollectible rate for ordinary receivables and on an estimate of individual collectability of specific doubtful receivables from debtors in financial difficulties.

II. Provision for bonuses

Provision for bonuses is recorded to accrue the amount for bonuses to employees of the Company for the fiscal year.

III. Provision for directors' bonuses

Provision for directors' bonuses is recorded to accrue the amount for bonuses to Directors and Audit & Supervisory Board Members of the Company for the fiscal year.

(4) Other significant matters related to the basis of preparation of consolidated financial statements

I. Bases for translation of significant foreign currency denominated assets and liabilities into Japanese yen

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the spot exchange rate on the closing date of the accounting period, with translation difference charged to income or loss.

II. Significant hedge accounting method

a. Hedge accounting method

Deferral hedge accounting is applied. However, monetary claims and liabilities denominated in foreign currencies subject to forward foreign exchange contracts are translated at the foreign exchange rates stipulated in the contract if the forward foreign exchange contract satisfies the requirements for this treatment. *("Furiate-shori")*

b. Hedging instruments and hedged items

Hedging instruments: Forward exchange contract

Hedged item: Planned transactions denominated in foreign currencies

c. Hedging policy

The Company employs hedging instruments to manage risk exposure to fluctuations in foreign currency exchange rates for foreign currency denominated payables in connection with the purchase of operating assets in the future, in accordance with the Company's internal management regulations which provide the limitation policy on transactions amount and the authorization policy on execution.

d. Assessment of hedge effectiveness

Assessment of hedge effectiveness is omitted for foreign currency forward exchange contracts since their hedge relationship is deemed highly effective.

III. Method and Term of Amortization of Goodwill

Depending on the source of occurrence, the amortization of goodwill is carried out within a five year period using the straight line method. The amortization of bargain purchase which occurred on or before March 31, 2010 is carried out with a five year period using the straight line method.

IV. Accounting for consumption taxes

Transactions subject to national consumption tax and local consumption tax are recorded at amounts exclusive of consumption taxes, and national and local consumption taxes unqualified for deduction are recorded as expenses for FY2013.

(Note) Figures are rounded down to the nearest million yen.

II. Note to consolidated balance sheet

Total accumulated depreciation of property, plant and equipment 21,150 million yen

III. Notes regarding consolidated statement of changes in net assets

1. Class and number of issued shares as of March 31, 2014

Class of shares	Number of shares as of March 31, 2014
Common stock	89,000,000

2. Items regarding dividends from surplus during FY2013

Date of declaration	Class of shares	Total cash dividends (million yen)	Cash dividend per share (yen)	Record Date	Effective date
June 13, 2013 Annual Shareholders Meeting	Common stock	1,486	17.00	March 31, 2013	June 14, 2013
October 25, 2013 Board of Directors Meeting	Common stock	1,486	17.00	September 30, 2013	November 25, 2013

3. Among the dividends whose record date is within FY2013, those having effective date in FY2014

To be placed on the agenda of the Annual Shareholders Meeting scheduled for June 17, 2014.

Date of declaration	Class of shares	Total cash dividends (million yen)	Dividend resource	Cash dividend per share (yen)	Record Date	Effective date
June 17, 2014 Annual Shareholders Meeting	Common stock	1,436	Retained earnings	17.00	March 31, 2014	June 18, 2014

4. Class and number of shares to be issued upon the exercise of share subscription rights (excluding those whose exercise period has not yet commenced) as of March 31, 2014

Class of shares	Number of shares as of March 31, 2014
Common stock	89,100

IV. Financial instruments

1. Status of financial instruments

(1) Policy on treating financial instruments

With regard to the fund management, the Net One Systems Group utilizes highly secure financial assets for temporary surplus funds. Also it is our Corporate Group's policy to utilize derivatives to avoid foreign exchange fluctuation risks pertaining to operating debt denominated in foreign currencies and not to use derivatives for speculation. Some of funds, meanwhile, are invested in compound financial instruments that incorporate derivatives to effectively manage them.

(2) Details of financial instruments, and risks and risk management system thereof

Notes and accounts receivable-trade, which are operating receivables, are exposed to customer credit risks. To manage these risks, the status of collection of these receivables from counterparties is periodically monitored and the due dates and balances are managed for each counterparty pursuant to the internal management regulations; and efforts trying to identify at an early stage and reduce losses from doubtful accounts caused by their worsened financial positions are made.

Short-term investment securities, consisting of commercial papers and negotiable certificates of deposit, are exposed to security issuer credit risks. There are, however, few credit risks because the Corporate Group only invests, pursuant to the internal management regulations, in securities issued by entities with high ratings.

Investment securities are compound financial instruments mainly consisted of stocks issued by companies with business relations, and derivatives. The stocks are exposed to risks of the stock issuers' financial positions. The Corporate Group periodically examines the issuers' financial positions and continuously reviews the stock holdings in consideration of relationships with the issuers. In addition to the aforementioned risks, foreign stocks are also exposed to foreign exchange fluctuation risks. Compound financial instruments that incorporate derivatives are also exposed to credit risks. There are, however, few credit risks because the Corporate Group only invests, pursuant to the internal management regulations, in securities issued by entities with high ratings.

Default risk of accounts payable-trade, which are operating debt and whose due dates are within one year, on due dates, are managed by a timely fund management. Some of accounts payable-trade are denominated in foreign currencies and exposed to foreign exchange fluctuation risks, but these risks are hedged by forward exchange contracts.

Derivatives adopted are forward exchange contracts used for the purpose of hedging foreign exchange fluctuation risks arising from operating debt denominated in foreign currencies. The basic policy on derivatives is determined by the Board of Directors, and the Finance & Accounting Department executes and manages derivative transactions pursuant to the internal management regulations which define the transaction limit amount and the transaction authority. Regarding hedging instruments and hedged items, hedging policy and method of assessing hedge effectiveness in hedge accounting, please refer to the aforementioned (4) II. "Significant hedge accounting method" in "I. Significant matters related to the basis of preparation of consolidated financial statements, 4. Matters related to accounting policies".

(3) Supplementary explanation to matters regarding fair values of financial instruments

The contracted amounts related to derivatives, mentioned in "2. Matters regarding fair values of financial instruments," in themselves, should not be considered indicative of the market risks associated with the derivatives.

2. Matters regarding fair values of financial instruments

Consolidated balance sheet amounts and fair values as of March 31, 2014, and their variances, of financial instruments, are as follows. However, financial instruments whose fair values are deemed to be extremely difficult to measure are not included (Note 2).

(unit: million yen)

	Consolidated balance sheet amount (*)	Fair value (*)	Variance
(1) Cash and deposits	18,184	18,184	–
(2) Notes and accounts receivable-trade	37,226	37,226	–
(3) Short-term investment securities and Investment securities			
Available-for sale securities	3,486	3,486	–
(4) Accounts payable-trade	(16,067)	(16,067)	–
(5) Derivatives	94	94	–

(*) The figures in parentheses indicate those posted in liabilities.

(Note) 1. Method of fair value measurement of financial instruments and matters regarding securities and derivatives

(1) Cash and deposits, and (2) Notes and accounts receivable-trade

Since these accounts are settled in a short period of time, their fair values are nearly equal to their book values. Therefore, the book values are deemed as their fair values.

(3) Short-term investment securities and Investment securities

Fair values of commercial papers and negotiable certificates of deposit whose maturities are within three months from the acquisition are nearly equal to their book values. Therefore, the book values are deemed as their fair values. Compound financial instruments that incorporate derivatives are valued as a whole using prices provided by counterparty financial institutions since the derivative portion cannot be reasonably measured separately.

(4) Accounts payable-trade

Since the account is settled in a short period of time, the fair value is nearly equal to the book values. Therefore, the book value is deemed as the fair value.

(5) Derivatives

I. Derivatives to which hedge accounting is not applied: None.

II. Derivatives to which hedge accounting is applied: Contracted amounts or notional amounts defined in contracts as of consolidated balance sheet date for each hedge accounting method are as follows:

(unit: million yen)

Hedge accounting method	Type of derivatives	Major hedged items	As of March 31, 2014			
			Contracted amounts	Including those over 1 year	Fair value	Fair value measurement method
Deferral hedge accounting method	Purchased forward exchange contracts–U.S. dollar	Accounts payable-trade	13,231	–	94	Based on prices provided by counterparty financial institutions
"*Furiate-shori*" method	Purchased forward exchange contracts–U.S. dollar	Accounts payable-trade	4,203	–	(*)	
Total			17,435	–	94	

(*) Forward exchange contracts under designated hedge accounting ("*Furiate-shori*") method are accounted for together with accounts payable-trade designated as a hedged item, their fair values are included in the corresponding amount of accounts payable-trade.

(Note) 2. Financial instruments whose fair values are deemed to be extremely difficult to measure

(unit: million yen)

Classification	Consolidated balance sheet amount
Unlisted equity securities	388

(*) Unlisted equity securities are not included in "(3) Short-term investment securities and Investment securities" because their market price is not available and the Company deems it extremely difficult to measure their fair value.

(Note) 3. Scheduled redemption amounts of monetary claims or short-term investment securities with maturity after the consolidated balance sheet date

(unit: million yen)

	Within 1 year	Over 1 year, within 5 years
Cash and deposits	18,184	–
Notes and accounts receivable-trade	37,226	–
Short-term investment securities and Investment securities	3,000	487
Total	58,410	487

V. Note regarding per share information

Net assets per share 676.65 yen

Net income per share 11.40 yen

VI. Note regarding significant subsequent events

The Company resolved at the Board of Directors meeting held on April 25, 2014 that it would retire treasury stock pursuant to the provisions of Article 178 of the Companies Act.

(1) Class of shares to be retired	Common stock of the Company
(2) Number of shares to be retired	3,000,000 shares (about 3.4% of the number of shares issued)
(3) Expected date to retire shares	June 20, 2014
(4) Total number of shares issued after the retirement	86,000,000 shares

*The retiring of shares mentioned above will be implemented conditional on obtaining approval for reversing the general reserve at the Annual Shareholders Meeting to be held June 17, 2014.

Notes to non-consolidated financial statements

I. Significant accounting policies

1. Basis and method of valuation for assets

(1) Securities

I. Subsidiaries and Affiliated Companies	Stated at cost based upon the moving average method
II. Available-for-sale securities	
Securities with market value	Stated at market value based upon market value on the closing date (Net unrealized holding gains or losses, net of the applicable income taxes, are directly included in a component of net assets. The cost of securities sold is measured by the moving average method.)
Securities without market value	Stated at cost based upon the moving average method, or at cost amortized or accumulated over the maturity based upon the straight-line method

(2) Derivatives — Stated at market value

(3) Inventories

I. Merchandise	Stated at cost based upon the moving average method (The balance sheet amount is adjusted by writing down the book value where the profitability declines.)
II. Costs for uncompleted construction contracts	Stated at cost based upon the specific identification method (The balance sheet amount is adjusted by writing down the book value where the profitability declines.)

2. Depreciation method for noncurrent assets

(1) Property, plant and equipment (excluding lease assets)

Declining balance method is applied.

The major useful lives of assets are:

Buildings	3-23 years
Tools, furniture and fixtures	2-20 years

(2) Intangible assets (excluding lease assets)

Straight line method is applied.

The major useful-lives of assets are:

Software for own use	5 years
Software for sale	3 years

(3) Lease assets

I. Lease assets in finance leases that transfer ownership to the lessee

Lease assets are depreciated using the same manner to the accounting for the noncurrent assets owned by the Company.

II. Lease assets in finance leases that do not transfer ownership to the lessee

Lease assets are depreciated using the straight line method over the corresponding lease terms as useful lives with their residual values to be zero.

Of finance leases that do not transfer ownership to the lessee, the lease transactions whose inception dates are on or before March 31, 2008 are accounted for in a similar manner to the accounting for ordinary rental transactions.

3. Basis for significant reserves

(1) Allowance for doubtful accounts

Allowance for doubtful accounts is recorded to provide reserve for possible losses on receivables based on the historical uncollectible rate for ordinary receivables and on an estimate of individual collectability of specific doubtful receivables from debtors in financial difficulties.

(2) Provision for bonuses

Provision for bonuses is recorded to accrue the amount for bonuses to employees of the Company for the fiscal year.

(3) Provision for directors' bonuses

Provision for directors' bonuses is recorded to accrue the amount for bonuses to Directors and Audit & Supervisory Board Members of the Company for the fiscal year.

4. Other significant matters related to the basis of preparation of non-consolidated financial statements

(1) Bases for translation of significant foreign currency denominated assets and liabilities into Japanese yen

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the spot exchange rate on the closing date of the accounting period, with translation difference charged to income or loss.

(2) Significant hedge accounting method

I. Hedge accounting method

Deferral hedge accounting is applied. However, monetary claims and liabilities denominated in foreign currencies subject to forward foreign exchange contracts are translated at the foreign exchange rates stipulated in the contract if the forward foreign exchange contract satisfies the requirements for this treatment.

("Furiate-shori")

II. Hedging instruments and hedged items

Hedging instruments:	Forward exchange contract
Hedged item:	Planned transactions denominated in foreign currencies

III. Hedging policy

The Company employs hedging instruments to manage risk exposure to fluctuations in foreign currency exchange rates for foreign currency denominated payables in connection with the purchase of operating assets in the future, in accordance with the Company's internal management regulations which provide the limitation policy on transactions amount and the authorization policy on execution.

IV. Assessment of hedge effectiveness

Assessment of hedge effectiveness is omitted for foreign currency forward exchange contracts since their hedge relationship is deemed highly effective.

(3) Accounting for consumption taxes

Transactions subject to national consumption tax and local consumption tax are recorded at amounts exclusive of consumption taxes, and national and local consumption taxes unqualified for deduction are recorded as expenses for FY2013.

(Note) Figures are rounded down to the nearest million yen.

II. Notes to non-consolidated balance sheet

1. Total accumulated depreciation of property, plant and equipment

20,982 million yen

2. Monetary claims and liabilities to affiliates

Short term monetary claims	3,185 million yen
Short term monetary liabilities	928 million yen

3. Guarantee of obligations of affiliates

1,103 million yen

III. Matters related to non-consolidated statement of income

Transactions with subsidiaries and affiliates

Transactions relating to the Company's operation	
Revenue	3,069 million yen
Purchase	3,094 million yen
Selling, general and administrative expenses	2,213 million yen
Transactions not relating to the Company's operation	1,463 million yen

IV. Matters related to non-consolidated statement of changes in net assets

Class and number of treasury stock shares as of March 31, 2014

Class of shares	Number of shares as of March 31, 2014
Common stock	4,470,825

V. Notes regarding tax effect accounting

1. Breakdown of major reason for deferred tax assets and deferred tax liabilities (as of March 31, 2014)

(unit: million yen)

Deferred tax assets–current	
Accrued enterprise tax	29
Provision for bonuses	570
Loss on valuation of inventories	11
Asset retirement obligations	3
Other	306
Total deferred tax assets–current	922
Deferred tax liabilities–current	
Deferred gains or losses on hedges	(20)
Total deferred tax liabilities–current	(20)
Net deferred tax assets–current	901
Deferred tax assets–non-current	
Depreciation for tools, furniture and fixtures	1,001
Software	298
Loss on valuation of investment securities	91
Valuation difference on available-for-sale securities	3
Accounts receivable-other	270
Asset retirement obligations	114
Other	178
Sub-total net deferred tax assets–non-current	1,958
Valuation allowance	(509)
Total net deferred tax assets–non-current	1,449
Deferred tax liabilities–non-current	
Asset retirement cost	(98)
Total deferred tax liabilities–non-current	(98)
Net deferred tax assets–non-current	1,351

2. **Breakdown of significant items that lead to a significant difference between statutory tax rate and effective tax rate after adoption of tax effect accounting.**

Statutory tax rate (adjusted)	38.01%
Entertainment expenses etc. not qualifying for deduction	8.58
Inhabitant tax on per capita basis etc.	2.09
Downward revision of year-end deferred tax assets due to changes in tax rate	5.47
Valuation allowance	8.74
Amortization of goodwill	5.42
Other	0.27
Effective tax rate after adoption of tax effect accounting	68.58

3. **Revisions to deferred tax assets and deferred tax liabilities due to changes in rates of income taxes**

The Act for Partial Revision of the Income Tax Act, etc. (Act. No. 10 of 2014) was promulgated on March 31, 2014, and the special corporation tax for reconstruction will no longer be imposed from the fiscal year starting on or after April 1, 2014. Accordingly, the effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities fell to 35.64% from 38.01%, for temporary differences expected to be reversed in the fiscal year starting on April 1, 2014.

As a result of this change in the tax rate, deferred tax assets (after deducting deferred tax liabilities) decreased by 69 million yen, income taxes-deferred increased by 70 million yen, deferred gains or losses on hedges decreased by 1 million yen, and the valuation difference on available-for-sale securities increased by 0 million yen.

VI. Note regarding assets used by lease

In addition to noncurrent assets recorded in the balance sheet, the Company uses office equipment and complete set of examination equipment under finance leases that do not transfer ownership to the lessee.

VII. Notes regarding transactions with related parties

Subsidiaries

(unit: million yen)

Classification	Company name	Ownership % including voting right	Relationship	Transaction	Amount of transaction	Account	As of March 31, 2014
Subsidiary	Net One Partners Co., Ltd.	Holding directly 100.0%	• Partial outsourcing of back-office operations • Loan transactions • Guarantee of obligations • 2 dispatched executives	Partial outsourcing of back-office operations (Note 1)	1,272	Other current assets	260
				Loan transactions (Note 2)	591	Short-term loans receivable	2,200
				Interest income (Note 2)	2	Other current assets	0
				Guarantee of obligations (Note 3)	1,103	–	–

Terms and conditions of transactions and the policy of determining the terms and conditions of the transactions:

(Notes) 1. Terms and conditions are determined considering the details and descriptions of outsourcing deals and contracts.

2. Interest rates applied to the loan transactions are determined by taking into account the market interest rates. Since loan and collection transactions are repeatedly conducted, the average balance during the fiscal year is given in the amount of transaction section.

3. Guarantee of obligations is provided for the obligations of specific suppliers. The guarantee fees are not collected.

4. The above indicated amount of transaction is exclusive of consumption taxes.

VIII. Note regarding per share information

Net assets per share	648.62 yen
Net income per share	4.68 yen

IX. Note regarding significant subsequent events

The Company resolved at the Board of Directors meeting held on April 25, 2014 that it would retire treasure stock pursuant to the provisions of Article 178 of the Companies Act.

(1) Class of shares to be retired	Common stock of the Company
(2) Number of shares to be retired	3,000,000 shares (about 3.4% of the number of shares issued)
(3) Expected date to retire shares	June 20, 2014
(4) Total number of shares issued after the retirement	86,000,000 shares

*The retiring of shares shown in (2) above will be implemented conditional on obtaining approval for reversing the general reserve at the Annual Shareholders Meeting to be held June 17, 2014.