May 25, 2015

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 28th Fiscal Year
April 1, 2014 to March 31, 2015

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 2 companies

Names of consolidated subsidiaries Net One Partners Co., Ltd.

Xseed Co., Ltd.

System Solution Engineering K.K., which was a consolidated subsidiary in the previous fiscal year, was completely dissolved as of July 31, 2014 so has been excluded from the scope of consolidation.

(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. The financial statements as of the balance sheet date are used in preparing the consolidated financial statements. However the necessary adjustments to the consolidated financial statements are made for significant transactions that occurred during the period from January 1 through March 31, the consolidated balance sheet 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 FY2014.

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

II. Note to consolidated balance sheet

Total accumulated depreciation of property, plant and equipment 21,467 million yen

III. Notes regarding consolidated statement of changes in net assets

1. Class and number of issued shares as of March 31, 2015

Class of shares	Number of shares as of March 31, 2015
Common stock	86,000,000

2. Items regarding dividends from surplus during FY2014

Date of declaration	Class of shares	Total cash dividends (million yen)	Cash dividend per share (yen)	Record Date	Effective date
June 17, 2014 Annual Shareholders Meeting	Common stock	1,436	17.00	March 31, 2014	June 18, 2014
October 31, 2014 Board of Directors Meeting	Common stock	1,276	15.00	September 30, 2014	November 25, 2014

3. Among the dividends whose record date is within FY2014, those having effective date in FY2015

To be placed on the agenda of the Annual Shareholders Meeting scheduled for June 16, 2015.

Date of declaration	Class of shares	Total cash dividends (million yen)	Dividend resource	Cash dividend per share (yen)	Record Date	Effective date
June 16, 2015 Annual Shareholders Meeting	Common stock	1,268	Retained earnings	15.00	March 31, 2015	June 17, 2015

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, 2015

Class of shares	Number of shares as of March 31, 2015
Common stock	142,100

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, 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, 2015, 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	19,374	19,374	–
(2) Notes and accounts receivable-trade	41,996	41,996	–
(3) Short-term investment securities and Investment securities			
Available-for sale securities	2,492	2,492	–
(4) Accounts payable-trade	(20,491)	(20,491)	–
(5) Derivatives	187	187	–

(*) 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 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, 2015			
			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	17,005	–	187	Based on prices provided by counterparty financial institutions
"*Furiate-shori*" method	Purchased forward exchange contracts–U.S. dollar	Accounts payable-trade	4,803	–	(*)	
Total			21,809	–	187	

(*) 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	398

(*) 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	19,374	–
Notes and accounts receivable-trade	41,996	–
Short-term investment securities and Investment securities	2,000	493
Total	63,370	493

V. Note regarding per share information

Net assets per share 674.49 yen

Net income per share 29.07 yen

VI. Note regarding significant subsequent events

Not applicable.

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.

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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 FY2014.

(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

21,238 million yen

2. Monetary claims and liabilities to subsidiaries and affiliates

Short term monetary claims	3,454 million yen
Short term monetary liabilities	1,458 million yen

3. Guarantee of obligations of subsidiaries and affiliates

A guarantee is offered for the following subsidiary's obligation to its specified supplier.

Net One Partners Co., Ltd.	1,102 million yen

III. Matters related to non-consolidated statement of income

Transactions with subsidiaries and affiliates

Transactions relating to the Company's operation	
Revenue	2,521 million yen
Purchase	4,082 million yen
Selling, general and administrative expenses	1,781 million yen
Transactions not relating to the Company's operation	1,933 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, 2015

Class of shares	Number of shares as of March 31, 2015
Common stock	1,464,925

V. Notes regarding tax effect accounting

1. Breakdown of major reason for deferred tax assets and deferred tax liabilities (as of March 31, 2015)

(unit: million yen)

Deferred tax assets–current	
Accrued enterprise tax	90
Provision for bonuses	893
Loss on valuation of inventories	19
Other	191
Total deferred tax assets–current	1,195
Deferred tax liabilities–current	
Deferred gains or losses on hedges	(43)
Total deferred tax liabilities–current	(43)
Net deferred tax assets–current	1,151
Deferred tax assets–non-current	
Depreciation for tools, furniture and fixtures	920
Software	243
Loss on valuation of investment securities	51
Valuation difference on available-for-sale securities	1
Accounts receivable-other	245
Asset retirement obligations	108
Other	126
Sub-total net deferred tax assets–non-current	1,698
Valuation allowance	(446)
Total net deferred tax assets–non-current	1,251
Deferred tax liabilities–non-current	
Asset retirement cost	(85)
Total deferred tax liabilities–non-current	(85)
Net deferred tax assets–non-current	1,166

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)	35.64%
Entertainment expenses etc. not qualifying for deduction	2.55
Inhabitant tax on per capita basis etc.	0.83
Downward revision of year-end deferred tax assets due to changes in tax rate	6.40
Valuation allowance	(1.15)
Amortization of goodwill	1.02
Succession to loss carried forward of subsidiary due to liquidation	(2.55)
Other	(0.47)
Effective tax rate after adoption of tax effect accounting	42.27

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

Following the promulgation of the Act for Partial Revision of the Income Tax Act, etc. (Act No. 9 of 2015) and the Act for Partial Revision of the Local Tax Act, etc. (Act No. 2 of 2015) on March 31, 2015, the rates of income taxes will be lowered from the fiscal year starting on or after April 1, 2015. Accordingly, the effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities fell from the previous rate of 35.64% to 33.10% for temporary differences expected to be reversed in the fiscal year starting on April 1, 2015, and 32.34% for temporary differences expected to be reversed in the fiscal year starting on April 1, 2016.

As a result of this change in the tax rate, the amount of deferred tax assets (after deducting deferred tax liabilities) decreased by 203 million yen, income taxes-deferred increased by 206 million yen, deferred gains or losses on hedges decreased by 3 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, 2015
Subsidiary	Net One Partners Co., Ltd.	Holding directly 100.0%	• Partial outsourcing of back-office operations • Loan transactions • Guarantee of obligations • 1 dispatched executives	Partial outsourcing of back-office operations (Note 1)	1,795	Other current assets	323
				Loan transactions (Note 2)	1,583	Short-term loans receivable	2,000
				Interest income (Note 2)	7	–	–
				Guarantee of obligations (Note 3)	1,102	–	–

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	639.27 yen
Net income per share	22.03 yen

IX. Note regarding significant subsequent events

Not applicable.