May 25, 2016

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 29th Fiscal Year
April 1, 2015 to March 31, 2016

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.

(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 associates accounted for using equity method None

JBS Technology Inc., which was an associate accounted for using the equity method in the previous fiscal year, is excluded from the scope of application of the equity method because all shares held were sold on July 30, 2015.

(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	3-23 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.

(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.

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 FY2015.

5. Changes to accounting policies

Accounting Standard for Business Combinations

The Company have been adopted the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on September 13, 2013, hereinafter "Business Combinations Accounting Standard"), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued on September 13, 2013, hereinafter "Consolidation Accounting Standard"), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued on September 13, 2013, hereinafter "Business Divestitures Accounting Standard") and other standards from the beginning of the current fiscal year under review.

Accordingly, the accounting method was changed to record the difference arising from changes in equity in subsidiaries which the Company continues to control as capital surplus, and to record business acquisition costs as expenses for the fiscal year in which they occurred. In addition, regarding the business combinations which became or will become effective on or after April 1, 2015, the accounting method was changed to retroactively reflect adjustments to the amount allocated to acquisition cost by settling the provisional accounting treatment on the consolidated financial statements of the current fiscal year in which the relevant business combination became or will become effective. In addition, the Company has changed the method of presenting net income and changed "minority interests" to "non-controlling interests." Consolidated financial statements for the previous fiscal year have been restated in order to reflect this change in presentation.

The Business Combinations Accounting Standard and other standards have been applied prospectively from the beginning of the fiscal year under review, in accordance with the transitional treatment set forth in Article 58-2 (4) of the Business Combinations Accounting Standard, Article 44-5 (4) of the Consolidation Accounting Standard and Article 57-4 (4) of the Business Divestitures Accounting Standard.

This change has no effect on the consolidated financial statements.

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

II. Note to consolidated balance sheet

Total accumulated depreciation of property, plant and equipment 23,528 million yen

III. Notes regarding consolidated statement of changes in net assets

1. Class and number of issued shares as of March 31, 2016

Class of shares	Number of shares as of March 31, 2016
Common stock	86,000,000

2. Items regarding dividends from surplus during FY2015

Date of declaration	Class of shares	Total cash dividends (million yen)	Cash dividend per share (yen)	Record Date	Effective date
June 16, 2015 Annual Shareholders Meeting	Common stock	1,268	15.00	March 31, 2015	June 17, 2015
October 29, 2015 Board of Directors Meeting	Common stock	1,268	15.00	September 30, 2015	November 24, 2015

3. Among the dividends whose record date is within FY2015, those having effective date in FY2016

To be placed on the agenda of the Annual Shareholders Meeting scheduled for June 16, 2016.

Date of declaration	Class of shares	Total cash dividends (million yen)	Dividend resource	Cash dividend per share (yen)	Record Date	Effective date
June 16, 2016 Annual Shareholders Meeting	Common stock	1,268	Retained earnings	15.00	March 31, 2016	June 17, 2016

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, 2016

Class of shares	Number of shares as of March 31, 2016
Common stock	174,700

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 are compound financial instruments mainly consisted of commercial papers and derivatives. 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. Compound financial instruments that incorporate derivatives are 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.

Investment securities, mainly consisted of stocks issued by companies with business relations, 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.

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, 2016, 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	20,668	20,668	–
(2) Notes and accounts receivable-trade	41,077	41,077	–
(3) Short-term investment securities			
Available-for sale securities	1,498	1,498	–
(4) Accounts payable-trade	(21,387)	(21,387)	–
(5) Derivatives	(660)	(660)	–

(*) 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

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, 2016			
			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	21,827	–	(660)	Based on prices provided by counterparty financial institutions
"*Furiate-shori*" method	Purchased forward exchange contracts–U.S. dollar	Accounts payable-trade	7,369	–	(*)	
Total			29,197	–	(660)	

(*) 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	162

(*) The fair value of unlisted equity securities is not disclosed 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
Cash and deposits	20,668
Notes and accounts receivable-trade	41,077
Short-term investment securities	1,500
Total	63,246

V. Note regarding per share information

Net assets per share 655.43 yen

Net income per share 17.85 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	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.

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 method

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 FY2015.

5. Changes to accounting policies

Accounting Standard for Business Combinations

The Company has been adopted the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on September 13, 2013, hereinafter "Business Combinations Accounting Standard"), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued on September 13, 2013, hereinafter "Business Divestitures Accounting Standard") and other standards from the beginning of the current fiscal year under review.

Accordingly, the accounting method was changed to record business acquisition costs as expenses for the fiscal year in which they occurred. In addition, regarding the business combinations which became or will become effective on or after April 1, 2015, the accounting method was changed to retroactively reflect adjustments to the amount allocated to acquisition cost under provisional accounting treatment on the financial statements of the current fiscal year in which the relevant business combinations became or will become effective.

The Business Combinations Accounting Standard and other standards have been applied prospectively from the beginning of the fiscal year under review, in accordance with the transitional treatment set forth in Article 58-2 (4) of the Business Combinations Accounting Standard and Article 57-4 (4) of the Business Divestitures Accounting Standard.

This change has no effect on the financial statements.

(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

23,247 million yen

2. Monetary claims and liabilities to subsidiaries and associates

Short term monetary claims	3,106 million yen
Short term monetary liabilities	1,724 million yen

3. Guarantee of obligations of subsidiaries and associates

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

Net One Partners Co., Ltd.	1,853 million yen

III. Matters related to non-consolidated statement of income

Transactions with subsidiaries and associates

Transactions relating to the Company's operation

Revenue	2,502 million yen
Purchase	3,450 million yen
Selling, general and administrative expenses	1,978 million yen
Transactions not relating to the Company's operation	1,692 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, 2016

Class of shares	Number of shares as of March 31, 2016
Common stock	1,453,525

V. Notes regarding tax effect accounting

1. Breakdown of major reason for deferred tax assets and deferred tax liabilities (as of March 31, 2016)

(unit: million yen)

Deferred tax assets–current	
Accrued enterprise tax	16
Provision for bonuses	751
Deferred gains or losses on hedges	131
Loss on valuation of inventories	0
Other	254
Total deferred tax assets–current	1,155
Net deferred tax assets–current	1,155
Deferred tax assets–non-current	
Depreciation for tools, furniture and fixtures	919
Software	204
Loss on valuation of investment securities	14
Valuation difference on available-for-sale securities	3
Accounts receivable-other	214
Asset retirement obligations	112
Other	85
Sub-total net deferred tax assets–non-current	1,553
Valuation allowance	(388)
Total net deferred tax assets–non-current	1,165
Deferred tax liabilities–non-current	
Asset retirement cost	(84)
Total deferred tax liabilities–non-current	(84)
Net deferred tax assets–non-current	1,080

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)	33.10%
Entertainment expenses etc. not qualifying for deduction	2.37
Inhabitant tax on per capita basis etc.	1.10
Downward revision of year-end deferred tax assets due to changes in tax rate	6.40
Valuation allowance	(1.50)
Other	0.57
Effective tax rate after adoption of tax effect accounting	42.04

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

Following the establishment of the Act for Partial Revision of the Income Tax Act, etc. (Act No. 15 of 2016) and the Act for Partial Revision, etc. of the Local Tax Act, etc. (Act No. 13 of 2016) on March 29, 2016, at the Diet, the rates of income taxes will be lowered from the fiscal year starting on or after April 1, 2016. Accordingly, the effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities fell from the previous rate of 33.10% to 30.86% for temporary differences expected to be reversed in the fiscal years starting on April 1, 2016 and April 1, 2017, and 30.62% for temporary differences expected to be reversed in the fiscal year starting on and after April 1, 2018.

As a result of this change in the tax rate, the amount of deferred tax assets (after deducting deferred tax liabilities) decreased by 168 million yen, income taxes-deferred increased by 158 million yen, deferred gains or losses on hedges increased by 9 million yen, and the valuation difference on available-for-sale securities increased by 0 million yen.

VI. 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, 2016
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)	1,603	Other current assets	288
				Loan transactions (Note 2)	933	Short-term loans receivable	2,000
				Interest income (Note 2)	4	–	–
				Guarantee of obligations (Note 3)	1,853	–	–

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.

VII. Note regarding per share information

Net assets per share	621.72 yen
Net income per share	17.00 yen

VIII. Note regarding significant subsequent events

Not applicable.