May 23, 2018

To Our Shareholders:

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

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

For the 31st Fiscal Year
April 1, 2017 to March 31, 2018

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 (https://www.netone.co.jp/) in accordance with the provisions of laws and 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.

(1) Number of consolidated subsidiaries	2 companies
Names of consolidated subsidiaries	Net One Partners Co., Ltd.
	Xseed Co., Ltd.

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

Names of non-consolidated subsidiaries	Net One Connect G.K.
	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 profit 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

(2) Non-consolidated subsidiaries (Net One Connect G.K., Net One Systems USA, Inc. and Net One Systems Singapore Pte. Ltd.) and affiliates (Asiasoft Solutions Pte. Ltd.) are excluded from the scope of application of the equity method, as their profit 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 and their impact are immaterial as a whole.

3. Matters related to accounting period of consolidated subsidiaries

As of FY2017, Xseed Co., Ltd., a consolidated subsidiary, has changed its closing date of the fiscal year from December 31 to March 31.

As a result of this change in fiscal year-end, the 15 months from January 1, 2017 to March 31, 2018 were consolidated in FY2017.

This change had an immaterial impact on the consolidated financial statements for FY2017.

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 profit 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 pursuant to the internal management regulations which define the transaction limit amount and the transaction authority.

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 FY2017.

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

II. Note to consolidated balance sheet

Total accumulated depreciation of property, plant and equipment 21,830 million yen

III. Notes to consolidated statement of changes in net assets

1. **Class and number of issued shares as of March 31, 2018**

Class of shares	Number of shares as of March 31, 2018
Common stock	86,000,000

2. **Items regarding dividends from surplus during FY2017**

Date of resolution	Class of shares	Total cash dividends (million yen)	Cash dividend per share (yen)	Record Date	Effective date
June 15, 2017 Annual Shareholders Meeting	Common stock	1,268	15.00	March 31, 2017	June 16, 2017
October 30, 2017 Board of Directors Meeting	Common stock	1,269	15.00	September 30, 2017	November 22, 2017

3. **Among the dividends whose record date is within FY2017, those having effective date in FY2018**

   To be placed on the agenda of the Annual Shareholders Meeting scheduled for June 14, 2018.

Date of declaration	Class of shares	Total cash dividends (million yen)	Dividend resource	Cash dividend per share (yen)	Record Date	Effective date
June 14, 2018 Annual Shareholders Meeting	Common stock	1,269	Retained earnings	15.00	March 31, 2018	June 15, 2018

4. **Class and number of shares to be issued upon the exercise of share acquisition rights (excluding those whose exercise period has not yet commenced) as of March 31, 2018**

Class of shares	Number of shares as of March 31, 2018
Common stock	232,500

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 (the Group) utilizes highly secure financial assets for temporary surplus funds. Also it is the 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.

(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 commercial papers and exposed to security issuer credit risks. There are, however, few credit risks because the 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 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 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, 2018, 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	21,953	21,953	–
(2) Notes and accounts receivable-trade	41,755	41,755	–
(3) Short-term investment securities			
Available-for sale securities	1,999	1,999	–
(4) Accounts payable-trade	(17,551)	(17,551)	–
(5) Lease obligations	(7,306)	(7,046)	259
(6) Derivatives	(243)	(243)	–

(*) 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, their 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, their book values are deemed as their fair values.

(4) Accounts payable-trade

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

(5) Lease obligations

The total amount of lease obligations (liabilities–current) and lease obligations (liabilities–non current) is presented.

The fair value is the discounted present value of total principal and interest using an assumed interest rate on equivalent new lease transactions.

(6) 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, 2018 Contracted amounts	Of the contracted amounts, those over 1 year	Fair value	Fair value measurement method
Deferral hedge accounting method	Purchased forward exchange contracts–U.S. dollar	Accounts payable-trade	16,280	–	(243)	Based on prices provided by counterparty financial institutions
"*Furiate-shori*" method	Purchased forward exchange contracts–U.S. dollar	Accounts payable-trade	5,801	–	(*)	
Total			22,081	–	(243)	

(*) 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 (*)	427

(*) 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	21,953
Notes and accounts receivable-trade	41,755
Short-term investment securities	2,000
Total	65,708

V. Note regarding per share information

Net assets per share 711.48 yen

Profit per share 67.16 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 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 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 profit or loss.

(2) 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 pursuant to the internal management regulations which define the transaction limit amount and the transaction authority.

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 FY2017.

(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

21,472 million yen

2. Monetary claims and liabilities to subsidiaries and associates

Short term monetary claims	4,365 million yen
Short term monetary liabilities	2,139 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.	1,715 million yen

III. Note to non-consolidated statement of income

Transactions with subsidiaries and associates

Transactions relating to the Company's operation	
Revenue	1,473 million yen
Purchase	9,542 million yen
Selling, general and administrative expenses	1,670 million yen
Transactions not relating to the Company's operation	1,485 million yen

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

Class and number of treasury stock shares as of March 31, 2018

Class of shares	Number of shares as of March 31, 2018
Common stock	1,384,268

V. Notes regarding tax effect accounting

1. Breakdown of major reason for deferred tax assets and deferred tax liabilities (as of March 31, 2018)

(unit: million yen)

Deferred tax assets–current	
Accrued enterprise tax	92
Provision for bonuses	800
Deferred gains or losses on hedges	37
Other	268
Total deferred tax assets–current	1,199
Net deferred tax assets–current	1,199
Deferred tax assets–non-current	
Depreciation for tools, furniture and fixtures	887
Software	124
Loss on valuation of investment securities	16
Long-term accounts receivable-other	211
Asset retirement obligations	116
Other	67
Sub-total net deferred tax assets–non-current	1,422
Valuation allowance	(408)
Total net deferred tax assets–non-current	1,014
Deferred tax liabilities–non-current	
Asset retirement cost	(74)
Valuation difference on available-for-sale securities	(0)
Total deferred tax liabilities–non-current	(75)
Net deferred tax assets–non-current	939

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.

This note has been omitted as the difference between the statutory tax rate and the effective tax rate after adoption of tax effect accounting is 5% or less of the statutory tax rate.

VI. Notes regarding transactions with related parties

Subsidiaries

(unit: million yen)

Classification	Company name	Percentage of voting rights holding (held)	Relationship	Transaction	Amount of transaction	Account	As of March 31, 2018
Subsidiary	Net One Partners Co., Ltd.	Holding directly 100.0%	• Purchase of products • Partial outsourcing of back-office operations • Loan transactions • Guarantee of obligations • 1 dispatched executives	Purchase of products (Note 1)	8,857	Accounts payable-trade	1,610
				Partial outsourcing of back-office operations (Note 2)	1,274	Other current assets	115
				Loan transactions (Note 3)	2,825	Short-term loans receivable	3,500
				Interest income (Note 3)	13	–	–
				Guarantee of obligations (Note 4)	1,715	–	–

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

(Notes)
1. Prices are determined by reference to market prices.
2. Terms and conditions are determined considering the details and descriptions of outsourcing deals and contracts.
3. 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.
4. Guarantee of obligations is provided for the obligations of specific suppliers. The guarantee fees are not collected.
5. The above indicated amount of transaction is exclusive of consumption taxes.

VII. Note regarding per share information

Net assets per share	660.02 yen
Profit per share	53.18 yen

VIII. Note regarding significant subsequent events

Not applicable.