

FY 2005, ending March 31, 2006

Overview of the Consolidated Financial and Operating Results for the Quarter Ended June 30, 2005

August 1, 2005

Listed company: Cybernet Systems Co., Ltd.

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Stock Exchange

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1. Preparation of First-Quarter Financial Results

- (1) Adoption of a simplified accounting method: No
- (2) Any change in accounting method from the last fiscal year: No
- (3) Any change in scope of consolidation and equity method of accounting: Consolidated financial statements prepared from the quarter ended June 30, 2005.

2. Financial and Operating Results for the First Quarter of the fiscal year ending March 31, 2006 (April 1, 2005, through June 30, 2005)

As consolidated financial statements are being prepared from the quarter ended June 30, 2005, only the figures for this quarter are shown.

(1) Consolidated Operating Results

Note: Amounts less than one million are truncated.

	Net sales		Operating income		Ordinary income	
	¥ Million	%	¥ Million	%	¥ Million	%
First quarter, ended June 30, 2005	4,400	—	678	—	710	—
First quarter, ended June 30, 2004	—	—	—	—	—	—
(Reference) Year ended March 31, 2005	—	—	—	—	—	—

	Net income		Net income per share—basic	Net income per share—diluted
	¥ Million	%	¥	¥
First quarter, ended June 30, 2005	402	—	3,860.66	3,788.97
First quarter, ended June 30, 2004	—	—	—	—
(Reference) Year ended March 31, 2005	—	—	—	—

[Qualitative Information regarding the Consolidated Business Result for the First Quarter of FY2005]

During the first quarter of the year ending March 31, 2006 (FY2005), the Japanese economy continued to suffer from the difficult situation begun in the second half of the previous fiscal year. However, signs exist of a real recovery with an increase in capital investment and investment in research and development due to improved corporate revenue.

In such an economic environment, the Group focused on sales to customers investing in digitizing their production (“*monozukuri*”), developing medicine for cuts and injuries, and nano-technology, for which market expansion is expected.

As a result, during the first quarter, ended June 30, 2005, sales of the Group were ¥4,400 million, operating income of ¥678 million, ordinary income of ¥710 million and net income of ¥402 million.

By business segment, the mainstay CAE solution business enjoyed overall steady progress in the automobile, precision equipment and electric-machinery-related industries and sales totaled ¥3,706 million. In contrast, sales in the network solution business were ¥693 million due to sluggish sales of operational improvement support software despite the steady advance in sales of PC connection software and security-related software following expanded demand for large-scale multipurpose equipment.

(2) Consolidated Financial Position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
First quarter, ended June 30, 2005	Million yen 12,192	Million yen 8,332	68.3 %	Yen 79,826.18
First quarter, ended June 30, 2004	—	—	—	—
(Reference) Year ended March 31, 2005	—	—	—	—

Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents
First quarter, ended June 30, 2005	Million yen 349	Million yen (96)	Million yen (649)	Million yen 2,392
First quarter, ended June 30, 2004	—	—	—	—
(Reference) Year ended March 31, 2005	—	—	—	—

[Qualitative Information regarding the Consolidated Financial Position for the First Quarter of FY2005]

1. Change in Consolidated financial position

The Company began to prepare consolidated financial statements from the quarter ended June 30, 2005. Total assets at quarter-end were ¥12,192 million, shareholders' equity was ¥8,332 million and the equity ratio was ¥68.3%.

2. Consolidated Cash Flows

*Cash provided by operating activities was ¥349 million, which was mainly due to income before income taxes of ¥710 million for the quarter and a decrease in trade receivables of ¥843 million despite a decrease in payables of ¥512 million and income taxes paid of ¥617 million.

*Cash used in investing activities was ¥96 million and included ¥67 million for the acquisition of newly consolidated subsidiaries and ¥19 million for the acquisition of fixed assets.

*Cash used in financial activities was ¥649 million as a result of ¥410 million to repay borrowings and ¥239 million in dividend payments.

[Reference]

Forecast for FY2005 (April 1, 2005—March 31, 2006)

Consolidated Forecast for FY2005

	Net sales	Ordinary income	Net income
	Million yen	Million yen	Million yen
FY2005	18,000	2,700	1,580

Nonconsolidated Forecast for FY2005

	Net sales	Ordinary income	Net income
	Million yen	Million yen	Million yen
FY2005	15,400	2,680	1,560

[Qualitative Information regarding the Consolidated and Nonconsolidated Forecast for FY2005]

Sales and income for the first quarter progressed steadily. However, for FY2005, the forecast figures are flat with those released on April 21, 2005, given the uncertainties in such projections.

The aforementioned projections are based on currently available information and contain many uncertainties. Changing economic situations and business management may cause actual results to differ from the forecasts.

[Attached documents]

Consolidated Condensed Balance Sheet as of June 30, 2005, and Consolidated Condensed Statement of Income, Consolidated Statement of Cash Flows, Consolidated Segment Information, and Consolidated Purchases, Orders Received and Sales (April 1, 2005, through June 30, 2005); Nonconsolidated Balance Sheets as of June 30, 2005, and Nonconsolidated Statements of Income, Nonconsolidated Segment Information, and Nonconsolidated Purchases, Orders Received and Sales (April 1, 2005 through June 30, 2005).

1. Consolidated Balance Sheet (condensed)

(Thousands of yen)

	FY2005 First Quarter (As of June 30, 2005)	
	Amount	Composition ratio
Assets		%
Current assets		
1 Cash and deposits	2,392,045	
2 Notes receivable—trade and accounts receivable	3,547,449	
3 Marketable securities	3,218,836	
4 Inventories	171,477	
5 Advance payments	478,401	
6 Short-term loans	1,000,000	
7 Deferred tax assets	85,015	
8 Other current assets	139,613	
Allowance for doubtful accounts	(10,566)	
Total current assets	11,022,272	90.4
Fixed assets		
1 Tangible fixed assets		
(1) Buildings	100,625	
(2) Tools, furniture and fixtures	221,056	
Total tangible fixed assets	321,682	2.6
2 Intangible fixed assets		
(1) Software	135,649	
(2) Consolidated adjustments account	100,457	
(3) Other intangible fixed assets	49,052	
Total intangible fixed assets	285,159	2.4
3 Investments and other assets		
(1) Investment securities	83,375	
(2) Investments in capital	25,967	
(3) Lease and guarantee deposits	252,015	
(4) Deferred tax assets	204,001	
Allowance for doubtful accounts	(2,060)	
Total investments and other assets	563,299	4.6
Total fixed assets	1,170,141	9.6
Total assets	12,192,413	100.0

(Thousands of yen)

	FY2005 First Quarter (As of June 30, 2005)	
	Amount	Composition ratio
Liabilities		%
Current liabilities		
1 Trade accounts payable	1,688,193	
2 Accounts payable—other	171,691	
3 Accrued expenses	395,704	
4 Income taxes payable	242,626	
5 Consumption taxes payable	162,034	
6 Advances received	532,546	
7 Reserve for bonuses	166,784	
8 Other current liabilities	67,012	
Total current liabilities	3,426,593	28.1
Fixed liabilities		
1 Accrued severance indemnities	386,108	
2 Reserve for directors' retirement allowance	47,694	
Total fixed liabilities	433,802	3.6
Total liabilities	3,860,395	31.7
Shareholders' equity		
Capital stock	995,000	8.1
Additional paid-in capital	909,000	7.5
Retained earnings	7,339,283	60.2
Unrealized gain on other securities	41,332	0.3
Treasury stock	(952,599)	(7.8)
Total shareholders' equity	8,332,017	68.3
Total liabilities and shareholders' equity	12,192,413	100.0

2. Consolidated Statement of Income (condensed)

(Thousands of yen)

	FY2005 First Quarter (April 1, 2005, through June 30, 2005)	
	Amount	Ratio
		%
Net sales	4,400,748	100.0
Cost of sales	2,738,012	62.2
Gross profit	1,662,735	37.8
Selling, general and administrative expenses	984,015	22.4
Operating income	678,720	15.4
Non-operating income	33,106	0.8
Non-operating expenses	1,115	0.0
Ordinary income	710,711	16.2
Extraordinary losses	256	0.0
Net income before income taxes	710,455	16.2
Corporate, local income and enterprise taxes	237,641	5.4
Deferred income taxes	69,849	1.6
Net income	402,964	9.2

3. Consolidated Statement of Cash Flows

(Thousands of yen)

	FY2005 First Quarter (April 1, 2005, through June 30, 2005)
Cash Flows from Operating Activities	
Income before income taxes	710,455
Depreciation and amortization	34,707
Amortization of consolidation adjustments account	5,287
Interest and dividend income	(1,011)
Security interest	(5,181)
Foreign exchange loss (gain)	(6,614)
Loss on disposal of fixed assets	256
(Increase) decrease in trade receivables	843,435
(Increase) decrease in inventories	(42,764)
Increase (decrease) in payables	(512,964)
Increase (decrease) in accrued expenses	(13,532)
Increase (decrease) in accrued consumption tax and others	16,231
Increase (decrease) in allowance for doubtful accounts	3,564
Increase (decrease) in accrued bonuses for employees	(120,550)
Increase (decrease) in accrued severance indemnities	11,830
Increase (decrease) in reserve for directors' retirement allowances	2,676
Others, net	35,603
Subtotal	961,427
Interest and dividends received	5,495
Income taxes paid	(617,332)
Net cash provided by operating activities	349,590
Cash Flows from Investing Activities	
Payment for acquisition of newly consolidated subsidiaries	(67,429)
Payment for acquisition of tangible fixed assets	(13,619)
Payment for acquisition of intangible fixed assets	(6,322)
Payment for acquisition of marketable securities	(2,714,020)
Proceeds from sale of marketable securities	2,704,109
Payment for loans	(1,000,000)
Proceeds from collection of loans	1,000,000
Others, net	489
Net cash provided by investing activities	(96,793)
Cash Flow from Financing Activities	
Repayment of borrowings	(410,000)
Payment for dividends	(239,068)
Net cash provided by (used for) financing activities	(649,068)
Effect of exchange rate changes in cash and cash equivalents	6,614
Net increase in cash and cash equivalents	(389,656)
Cash and cash equivalents at beginning of period	2,781,702
Cash and cash equivalents at the end of quarter	2,392,045

Note: Details of Assets and liabilities at the beginning of consolidation subsequent to newly consolidated KGT Inc. through the acquisition of shares and the purchase price of the company as well as payment (net) for acquisition of the company's shares were as follows:

(Thousands of yen)

Current assets	1,052,223
Fixed assets	90,469
Consolidation adjustments account	105,744
Current liabilities	(1,069,139)

Fixed liabilities	(19,298)
Purchase price of the newly consolidated subsidiary	160,000
Cash and cash equivalents of the newly consolidated subsidiary	(92,570)
Balance: Payment for acquisition of the newly consolidated subsidiary	67,429

4. Consolidated Segment Information

(1) Business segment information

FY2005 First Quarter (April 1, 2005, through June 30, 2005)

(Thousands of yen)

	CAE Solution Service Business	Network Solution Service Business	Total	Eliminations	Consolidation
Net sales to outside customers	3,706,846	693,902	4,400,748	—	4,400,748
Sales and transfer between segments	—	—	—	—	—
Total	3,706,846	693,902	4,400,748	—	4,400,748
Operating expenses	2,711,968	667,560	3,379,529	342,498	3,722,027
Operating income	994,877	26,341	1,021,219	(342,498)	678,720

Note: 1. Businesses are segmented based on the similarity of products or services that each segment provides users.

2. Principal products and services that belong to each segment

Segment	Principal products and services
CAE Solution Service Business	Finite element method analysis software, Numerical analysis software, Optical analysis & Illumination analysis software, Electronic circuit simulator, High-frequency circuit design system, Advanced visual systems software, Medical image software, User education, Professional analysis service
Network Solution Service Business	Terminal emulator, PC asset management, License management, Business process management software, Security measurement software, Web meeting service

3. Principal unallocated operating expenses included in Eliminations (¥342,498 thousand) are related to the management division.

(2) Geographical segment information

FY2005 First Quarter (April 1, 2005, through June 30, 2005)

As sales in Japan constitute more than 90% of the total sales of all segments, the disclosure of geographical segment information has been omitted.

(3) Overseas sales

FY2005 First Quarter (April 1, 2005, through June 30, 2005)

As overseas sales constitute less than 10% of consolidated sales, the disclosure of overseas sales has been omitted.

5. Consolidated Purchases, Orders Received and Sales

(1) Purchases

Segment	FY2005 First Quarter (April 1, 2005, through June 30, 2005)	
	Amount (Thousands of yen)	Composition ratio (%)
CAE Solution Service Business	1,831,864	78.3
Network Solution Service Business	507,971	21.7
Total	2,339,835	100.0

Note: 1. Disclosed amounts express sales prices.
2. The above amounts do not include consumption and other taxes.

(2) Orders received

(Thousands of yen)

Segment	FY2005 First Quarter (April 1, 2005, through June 30, 2005)	
	Amount of orders received	Backlog demand
CAE Solution Service Business	2,815,972	1,244,568
Network Solution Service Business	669,172	132,611
Total	3,485,145	1,377,179

Note: The above amounts do not include consumption and other taxes.

(3) Sales results

Segment	FY2005 First Quarter (April 1, 2005, through June 30, 2005)	
	Amount (Thousands of yen)	Composition ratio (%)
CAE Solution Service Business	3,706,846	84.2
Network Solution Service Business	693,902	15.8
Total	4,400,748	100.0

Note: The above amounts do not include consumption and other taxes.

6. Nonconsolidated Balance Sheets

(Thousands of yen)

	FY2004 First Quarter (As of June 30, 2004)		FY2005 First Quarter (As of June 30, 2005)		FY2004 (As of March 31, 2005) Condensed balance sheet	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Assets		%		%		%
Current assets						
1 Cash and deposits	2,393,779		2,272,802		2,781,702	
2 Notes receivable—trade	74,305		47,919		28,616	
3 Accounts receivable	2,432,406		2,830,685		3,426,912	
4 Marketable securities	3,852,957		3,218,836		3,217,219	
5 Merchandise	116,979		90,004		106,788	
6 Supplies	5,148		4,584		4,584	
7 Advance payments	391,087		478,401		456,451	
8 Prepaid expenses	33,942		32,954		35,930	
9 Deferred tax assets	77,348		85,015		160,358	
Short-term loans to						
10 affiliates and subsidiaries	500,000		1,300,000		1,000,000	
11 Other receivables	339,995		2,500		203	
12 Suspense account payment	1,319		—		—	
13 Other current assets	21,289		81,566		61,106	
14 Allowance for doubtful accounts	(2,500)		(3,080)		(3,450)	
Total current assets	10,238,061	92.2	10,442,191	89.4	11,276,424	92.2
Fixed assets						
1 Tangible fixed assets						
(1) Buildings	48,810		95,406		94,303	
(2) Tools, furniture and fixtures	156,032		204,997		190,316	
Total tangible fixed assets	204,843	1.8	300,403	2.6	284,620	2.3
2 Intangible fixed assets	294,129	2.7	170,491	1.5	174,191	1.4
3 Investments and other assets						
(1) Investment securities	55,753		83,355		76,611	
Equity securities for nonconsolidated subsidiaries and affiliates	—		250,000		—	
(2) Investment in partnership for nonconsolidated and affiliates	—		25,967		25,967	
(3) Lease and guarantee deposits and	151,383		199,736		200,076	
(4) Deferred tax assets	158,593		204,001		201,160	
(5) Allowance for doubtful accounts	(2,060)		(2,060)		(2,060)	
(6) Total investments and other assets	363,671	3.3	761,000	6.5	501,755	4.1
Total fixed assets	862,643	7.8	1,231,895	10.6	960,567	7.8
Total assets	11,100,705	100.0	11,674,087	100.0	12,236,991	100.0

(Thousands of yen)

	FY2004 First Quarter (As of June 30, 2004)		FY2005 First Quarter (As of June 30, 2005)		FY2004 (As of March 31, 2005) Condensed balance sheet	
	Amounts	Ratio	Amounts	Ratio	Amounts	Ratio
Liabilities		%		%		%
Current liabilities						
1 Trade accounts payable	1,113,752		1,319,493		1,738,799	
2 Accounts payable—other	123,134		170,616		22,405	
3 Accrued expenses	344,083		348,280		342,975	
4 Income tax payable	240,567		242,389		614,541	
5 Consumption tax payable	138,749		152,160		122,328	
6 Advances received	415,352		462,575		429,677	
7 Deposits received	178,326		51,243		5,759	
8 Reserve for bonuses	125,081		141,896		245,709	
Total current liabilities	2,679,048	24.2	2,888,655	24.8	3,522,196	28.8
Fixed liabilities						
1 Accrued severance indemnities	323,212		365,661		354,979	
2 Reserve for directors' retirement allowances	36,376		47,694		45,018	
Total fixed liabilities	359,588	3.2	413,355	3.5	399,997	3.3
Total liabilities	3,038,636	27.4	3,302,011	28.3	3,922,194	32.1
Shareholders' equity						
Capital stock	995,000	8.9	995,000	8.5	995,000	8.1
Capital surplus						
1 Additional paid-in capital	909,000		909,000		909,000	
Total capital surplus	909,000	8.2	909,000	7.8	909,000	7.4
Retained earnings						
1 Legal reserve	71,960		71,960		71,960	
2 Voluntary reserve						
General reserve	5,090,000		5,490,000		5,090,000	
3 Unappropriated earnings at the end of the quarter	1,242,014		1,817,379		2,163,982	
Total retained earnings	6,403,974	57.7	7,379,339	63.2	7,325,942	59.9
Unrealized gain on other securities	24,053	0.2	41,334	0.4	37,453	0.3
Treasury stock	(269,959)	(2.4)	(952,599)	(8.2)	(952,599)	(7.8)
Total shareholders' equity	8,062,068	72.6	8,372,075	71.7	8,314,797	67.9
Total liabilities and shareholders' equity	11,100,705	100.0	11,674,087	100.0	12,236,991	100.0

7. Nonconsolidated Statements of Income

(Thousands of yen)

	FY2004 First Quarter (April 1, 2004, through June 30, 2005)		FY2005 First Quarter (April 1, 2005, through June 30, 2006)		FY2004 condensed statement of income (April 1, 2004, through June 30, 2005)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
		%		%		%
Net sales	3,493,928	100.0	3,834,225	100.0	13,968,970	100.0
Cost of sales	2,016,790	57.7	2,264,888	59.1	8,126,328	58.2
Gross profit	1,477,137	42.3	1,569,337	40.9	5,842,641	41.8
Selling, general and administrative expenses	771,393	22.1	853,732	22.2	3,368,858	24.1
Operating income	705,743	20.2	715,604	18.7	2,473,782	17.7
Non-operating income	64,859	1.9	34,943	0.9	146,043	1.0
Non-operating expenses	13	0.0	18	0.0	3,733	0.0
Ordinary income	770,589	22.1	750,529	19.6	2,616,092	18.7
Extraordinary gains	—	—	—	—	255	0.0
Extraordinary losses	—	—	256	0.0	68,910	0.5
Net income before income taxes	770,589	22.1	750,273	19.6	2,547,438	18.2
Corporate, local income and enterprise taxes	188,566	5.4	237,403	6.2	1,050,529	7.5
Deferred income taxes	120,518	3.5	69,849	1.8	(14,217)	(0.1)
Net income	461,505	13.2	443,020	11.6	1,511,126	10.8
Unappropriated retained earnings brought forward	780,508		1,374,359		780,508	
Interim dividends paid	—		—		127,652	
Unappropriated retained earnings at the end of quarter	1,242,014		1,817,379		2,163,982	

8. Nonconsolidated Purchases, Orders Received and Sales

(1) Purchases

(Thousands of yen)

Segment	FY2004 First Quarter (April 1, 2004, through June 30, 2004)		FY2005 First Quarter (April 1, 2005, through June 30, 2005)		Increase/decrease	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
CAE Solution Service Business	1,627,389	93.3	1,790,653	92.0	163,264	10.0
Network Solution Service Business	117,313	6.7	156,329	8.0	39,015	33.3
Total	1,744,702	100.0	1,946,983	100.0	202,280	11.6

Note: 1. Disclosed amounts express purchase prices.

2. The above amounts do not include consumption and other taxes.

(2) Orders received

(Thousands of yen)

Segment	FY2004 First Quarter (April 1, 2004, through June 30, 2004)		FY2005 First Quarter (April 1, 2005, through June 30, 2005)		Increase/decrease	
	Amount of orders received	Backlog demand	Amount of orders received	Backlog demand	Amount of orders received	Backlog demand
CAE Solution Service Business	2,568,836	1,179,214	2,711,455	1,151,004	142,618	(28,209)
Network Solution Service Business	221,433	49,366	218,735	64,496	(2,698)	15,130
Total	2,790,270	1,228,580	2,930,190	1,215,501	139,920	(13,079)

Note: The above amounts do not include consumption and other taxes.

(3) Sales results

(Thousands of yen)

Segment	FY2004 First Quarter (April 1, 2004, through June 30, 2004)		FY2005 First Quarter (April 1, 2005, through June 30, 2005)		Increase/decrease	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
CAE Solution Service Business	3,287,486	94.1	3,591,689	93.7	304,202	9.3
Network Solution Service Business	206,441	5.9	242,536	6.3	36,095	17.5
Total	3,493,928	100.0	3,834,225	100.0	340,297	9.7

Note: The above amounts do not include consumption and other taxes.