

# Summary of Financial Results for Nine Months Ended December 30,2005 (Consolidated)

February 14, 2006

Company name: Japan Communications Inc.

Stock code: 9424

Exchange: Osaka Securities Exchange, Hercules

(URL <http://www.j-com.co.jp/>)

Representative: Frank Seiji Sanda, Representative Director and Chief Executive Officer

Contact: Naohisa Fukuda, Director and Chief Financial Officer

TEL (03) 5767-9100

## 1. Notes related to the preparation of the consolidated quarterly financial results

- ① Change in accounting method in current fiscal year : Yes (Adoption of simplified accounting method of corporate tax, etc.)
- ② Change in scope of consolidation and use of equity : None
- ③ Involvement of certified public accountant or auditor : None

## 2. Financial results for the third quarter ended December 31, 2005 (April 1, 2005 ~ December 31, 2005)

### (1) Consolidated results of operations (Amounts rounded down, and percentages truncated)

|                                   | Net sales   |   | Operating profit |   | Ordinary income |   | Net income (this period) |   |
|-----------------------------------|-------------|---|------------------|---|-----------------|---|--------------------------|---|
|                                   | Million yen | % | Million yen      | % | Million yen     | % | Million yen              | % |
| Nine months ended December 2005   | 3,710       | — | 165              | — | 114             | — | 109                      | — |
| Nine months ended December 2004   | —           | — | —                | — | —               | — | —                        | — |
| (Reference) Year ended March 2005 | 4,559       | — | 181              | — | 153             | — | 112                      | — |

|                                   | Net income per share (this period) | Diluted net income per share (this period) |
|-----------------------------------|------------------------------------|--|
|                                   | Yen                                | Yen  |
| Nine months ended December 2005   | 508.00                             | 485.22                                     |
| Nine months ended December 2004   | —                                  | —  |
| (Reference) Year ended March 2005 | 629.98                             | —  |

- (Notes) 1. Accounts were not settled for the nine months ended December 2005, so information is unavailable.  
 2. For the period ended December 2004 and the fiscal year ended March 2005, diluted net income per share is not given due to the fact that the shares were not listed, thus a stock average calculation is not possible.

[Qualitative information report on consolidated management results]

Through this third quarter, the company's primary business, data communication service, had sales of 2,155 million yen (67.4% growth versus the same period last year) with gross margins of 1,112 million yen. The gross profit margin for the data communication service business was 51.6%. Voice service continued to contract, with sales of 1,555 million (a decline of 26.0% versus the same period last year) and gross margins of 318 million yen. In total, operating profits were 165 million yen, and due to 69 million yen in one-time expenses related to the IPO in the first quarter, ordinary income was 114 million yen and net profits were 109 million yen.

## (2) Consolidated financial position

|                                   | Total assets | Shareholders' equity | Equity ratio | Shareholders' equity per share |
|-----------------------------------|--------------|----------------------|--------------|--------------------------------|
|                                   | Million yen  | Million yen          | %            | Yen                            |
| Nine months ended December 2005   | 4,786        | 3,725                | 77.8         | 16,674.81                      |
| Nine months ended December 2004   | —            | —                    | —            | —                              |
| (Reference) Year ended March 2005 | 2,792        | 1,683                | 60.3         | 9,395.04                       |

## (3) Consolidated cash flows

|                                   | Cash flow from operations | Cash flow from investing | Cash flow from financing | Cash and cash equivalents at end of period |
|-----------------------------------|---------------------------|--------------------------|--------------------------|--|
|                                   | Million yen               | Million yen              | Million yen              | Million yen                                |
| Nine months ended December 2005   | 343                       | △924                     | 1,850                    | 2,257                                      |
| Nine months ended December 2004   | —                         | —                        | —                        | —  |
| (Reference) Year ended March 2005 | 949                       | △582                     | △177                     | 978  |

## [Qualitative information report on consolidated management results]

Total assets in this third quarter increased by 1,994 million yen over the previous full-year consolidated accounting period to 4,786 million yen, mainly due to the increase in capital from the listing of the company's shares in the first quarter.

Liabilities for the period, when compared to the previous full-year consolidated accounting period, are generally unchanged. In addition, shareholders' equity increased by 2,042 million yen to 3,725 million yen over the previous full-year consolidated accounting period mainly due to new share issuance from the listing of the company's shares.

Cash flow from operations increased by 343 million yen, and cash flows from investing increased by 924 million, mostly due to proactive investment in software development for data communication services.

## 3. Consolidated forecast for the fiscal year ending March 2006 (April 1, 2005 ~ March 31, 2006)

The acquisition of the stock of Arxceo Corporation on February 14, 2006 is estimated to have a negligible impact on revenue this period. However, because stock acquisition and other costs are expected, the performance forecast for the March 2006 period (April 1, 2005 to March 31, 2006) made public on March 18, 2005 is amended as follows.

(Million yen)

|   | Net sales | Ordinary income | Net income (this period) |
|---|-----------|-----------------|--------------------------|
| Forecast from previous period (A)                           | 6,255     | 457             | 451                      |
| Current amended forecast (B)                                | -         | 57              | 51                       |
| Change (B - A)  | -         | ▲400            | ▲400                     |
| Ratio (%)   | -         | ▲87.5           | ▲88.7                    |
| (Reference) Results from previous period (Ended March 2005) | 4,559     | 153             | 112                      |

(Reference) Estimated net income per share (full-year) 236.16 yen

※ The above materials may contain items concerning forward-looking statements or perspectives based on predictions. The world economy, state of competition, currency exchange fluctuation, etc. contains risks and uncertainties, thus financial performance by the company may differ distinctly from expectations.

# 1 【Consolidated Financial Statements】

## (1) 【Consolidated Financial Statements】

### ① 【Consolidated Balance Sheet】

|   | 3Q FY2005<br>(As of December 31, 2005) |             | FY2004<br>(Ended March 31, 2004) |             |
|---|--|-------------|----------------------------------|-------------|
|   | Amount (thousand yen)                  | (%)         | Amount (thousand yen)            | (%)         |
| <b>Assets</b>                             |  |             |                                  |             |
| <b>I Current assets</b>                   |  |             |                                  |             |
| 1 Cash and equivalents                    | 2,166,362                              |             | 960,837                          |             |
| 2 Account receivable-trade                | 600,213                                |             | 561,747                          |             |
| 3 Marketable securities                   | 91,574                                 |             | 17,280                           |             |
| 4 Merchandise                             | 31,078                                 |             | 38,532                           |             |
| 5 Inventory                               | 119,043                                |             | 115,297                          |             |
| 6 Account receivable-others               | 13,224                                 |             | 18,315                           |             |
| 7 Other                                   | 33,330                                 |             | 22,523                           |             |
| Allowance for doubtful receivables        | △1,000                                 |             | △1,000                           |             |
| <b>Total current assets</b>               | <b>3,053,827</b>                       | <b>63.8</b> | <b>1,733,534</b>                 | <b>62.1</b> |
| <b>II Fixed assets</b>                    |  |             |                                  |             |
| <b>1 Tangible fixed assets</b>            |  |             |                                  |             |
| (1) Building and related facilities       | 29,529                                 |             | 22,856                           |             |
| Accumulated depreciation                  | 8,167                                  | 21,361      | 5,459                            | 17,396      |
| (2) Vehicles                              | 8,544                                  |             | 5,683                            |             |
| Accumulated depreciation                  | 5,035                                  | 3,508       | 4,563                            | 1,120       |
| (3) Equipment                             | 458,290                                |             | 326,504                          |             |
| Accumulated depreciation                  | 221,094                                | 237,196     | 162,376                          | 164,127     |
| (4) Mobile devices                        | 161,935                                |             | 177,526                          |             |
| Accumulated depreciation                  | 84,258                                 | 77,676      | 77,350                           | 100,176     |
| <b>Tangible fixed assets total</b>        | <b>339,742</b>                         | <b>7.1</b>  | <b>282,820</b>                   | <b>10.1</b> |
| <b>2 Intangible fixed assets</b>          |  |             |                                  |             |
| (1) Trademarks                            | 3,274                                  |             | 3,195                            |             |
| (2) Patents                               | 370                                    |             | 1,074                            |             |
| (3) Telephone subscriber rights           | 1,294                                  |             | 1,294                            |             |
| (4) Software                              | 1,271,310                              |             | 698,112                          |             |
| <b>Total intangible fixed assets</b>      | <b>1,276,249</b>                       | <b>26.7</b> | <b>703,676</b>                   | <b>25.2</b> |
| <b>3 Investments and other assets</b>     |  |             |                                  |             |
| (1) Security deposits                     | 52,976                                 |             | 47,930                           |             |
| (2) Other                                 | 43,008                                 |             | 9,421                            |             |
| Allowance for doubtful receivables        | △19                                    |             | △19                              |             |
| <b>Total investments and other assets</b> | <b>95,964</b>                          | <b>2.0</b>  | <b>57,331</b>                    | <b>2.1</b>  |

|  | 3Q FY2005<br>(As of December 31, 2005) |       | FY2004<br>(Ended March 31, 2004) |       |
|--|--|-------|----------------------------------|-------|
|  | Amount (thousand yen)                  | (%)   | Amount (thousand yen)            | (%)   |
| Total fixed assets                         | 1,711,956                              | 35.8  | 1,043,828                        | 37.4  |
| III Deferred assets                        |  |       |                                  |       |
| New share issuing expenses                 | 20,842                                 |       | 14,850                           |       |
| Total deferred assets                      | 20,842                                 | 0.4   | 14,850                           | 0.5   |
| Total assets                               | 4,786,626                              | 100.0 | 2,792,212                        | 100.0 |
| Liabilities                                |  |       |                                  |       |
| I Current liabilities                      |  |       |                                  |       |
| 1 Accounts payable                         | 433,987                                |       | 298,341                          |       |
| 2 Current portion of long-term debt        | 4,500                                  |       | 54,000                           |       |
| 3 Accounts payable-other                   | 129,540                                |       | 133,142                          |       |
| 4 Accrued consumption tax                  | —                                      |       | 64,703                           |       |
| 5 Accrued corporate and other taxes        | 7,677                                  |       | 16,927                           |       |
| 6 Deferred revenue                         | 442,877                                |       | 482,739                          |       |
| 7 Data communication service cost reserves | 1,704                                  |       | 28,372                           |       |
| 8 Other                                    | 40,662                                 |       | 30,515                           |       |
| Total current liabilities                  | 1,060,950                              | 22.2  | 1,108,741                        | 39.7  |
| II Fixed liabilities                       |  |       |                                  |       |
| Total fixed liabilities                    | —                                      | —     | —                                | —     |
| Total liabilities                          | 1,060,950                              | 22.2  | 1,108,741                        | 39.7  |
| Shareholders equity                        |  |       |                                  |       |
| I Capital stock                            | 2,259,836                              | 47.2  | 1,518,947                        | 54.4  |
| II Capital surplus                         | 1,567,660                              | 32.7  | 383,056                          | 13.7  |
| III Retained earnings                      | △31,149                                | △0.7  | △140,853                         | △5.0  |
| IV Exchange conversion adjustment account  | △68,930                                | △1.4  | △76,867                          | △2.8  |
| V Treasury stock                           | △1,741                                 | △0.0  | △811                             | △0.0  |
| Total shareholders equity                  | 3,725,676                              | 77.8  | 1,683,470                        | 60.3  |
| Total liabilities and shareholders equity  | 4,786,626                              | 100.0 | 2,792,212                        | 100.0 |

② 【Consolidated income statement】

|   | 3Q FY2005<br>(From April 1, 2005 to<br>December 31, 2005) |           |       | Previous consolidated<br>accounting period<br>(From April 1, 2204 to<br>March 31, 2005) |           |       |
|---|---|-----------|-------|---|-----------|-------|
|   | Amount (thousand yen)                                     |           | (%)   | Amount (thousand yen)   |           | (%)   |
| I Net sales   |   |           |       |   |           |       |
| 1 Operating revenue                                 |   | 3,710,988 | 100.0 |   | 4,559,431 | 100.0 |
| II Cost of sales                                    |   |           |       |   |           |       |
| 1 Cost of sales                                     |   | 2,280,345 | 61.4  |   | 2,953,876 | 64.8  |
| Gross profit  |   | 1,430,642 | 38.6  |   | 1,605,554 | 35.2  |
| III Selling, general and<br>administrative expenses |   | 1,265,623 | 34.1  |   | 1,424,373 | 31.2  |
| Operating profit                                    |   | 165,019   | 4.5   |   | 181,181   | 4.0   |
| IV Non-operating income                             |   |           |       |   |           |       |
| 1 Interest received                                 | 1,581   |           |       | 258   |           |       |
| 2 Foreign exchange<br>income                        | 24,122  |           |       | —   |           |       |
| 3 Miscellaneous income                              | 306   | 26,010    | 0.7   | 1,261   | 1,520     | 0.0   |
| V Non-operating expenses                            |   |           |       |   |           |       |
| 1 Interest paid                                     | 373   |           |       | 1,480   |           |       |
| 2 Foreign exchange loss                             | —   |           |       | 38  |           |       |
| 3 Expenses related to<br>share issuance             | 69,369  |           |       | 27,000  |           |       |
| 4 New share expense<br>amortization                 | 6,947   |           |       | —   |           |       |
| 5 Other expenses                                    | 161   | 76,851    | 2.1   | 511   | 29,029    | 0.6   |
| Ordinary income                                     |   | 114,177   | 3.1   |   | 153,671   | 3.4   |
| VI Extraordinary income                             | —   | —         | —     | —   | —         | —     |
| VII Extraordinary loss                              |   |           |       |   |           |       |
| 1 Loss due to prior period<br>adjustment            | —   |           |       | 653   |           |       |
| 2 Loss on disposal of fixed<br>assets               | 115   |           |       | 29,368  |           |       |
| 3 Loss on cancellation of<br>lease contracts        | —   | 115       | 0.0   | 1,851   | 31,873    | 0.7   |
| Income before taxes and<br>minority interest        |   | 114,062   | 3.1   |   | 121,798   | 2.7   |
| Corporate, resident and<br>business taxes           |   | 4,357     | 0.1   |   | 9,374     | 0.2   |
| Net income  |   | 109,704   | 3.0   |   | 112,424   | 2.5   |

③ 【Consolidated statement of retained surplus】

|  | 3Q FY2005<br>(From April 1, 2005 to<br>December 31, 2005) |           | Previous consolidated<br>accounting period<br>(From April 1, 2204 to<br>March 31, 2005) |          |
|--|---|-----------|---|----------|
|  | Amount (thousand yen)                                     |           | Amount (thousand yen)   |          |
| Capital surplus                                      |   |           |   |          |
| I Balance of capital surplus<br>at beginning of term |   | 383,056   |   | 617,448  |
| II Increase in capital surplus                       |   |           |   |          |
| 1 Increase from new share<br>issuance                | 1,184,603   | 1,184,603 | 8,166   | 8,166    |
| III Decrease in capital surplus                      |   |           |   |          |
| 1 Decrease from<br>supplementation of loss           | —   |           | 242,448   |          |
| 2 Decrease from exercise of<br>stock options         | —   | —         | 110   | 242,558  |
| IV Capital surplus at end of<br>term                 |   | 1,567,660 |   | 383,056  |
| Retained earnings                                    |   |           |   |          |
| I Retained earnings at<br>beginning of term          |   | △140,853  |   | △495,726 |
| II Increase in retained<br>earnings                  |   |           |   |          |
| 1 Net income   | 109,704   |           | 112,424   |          |
| 2 Capital surplus decrease                           | —   | —         | 242,448   | 354,872  |
| III Earned surplus at end of<br>term                 |   | △31,149   |   | △140,853 |

## ④ 【Consolidated statement of cash flows】

|   | 3Q FY2005<br>(From April 1, 2005 to<br>December 31, 2005) | Previous consolidated<br>accounting period<br>(From April 1, 2204 to<br>March 31, 2005) |
|---|---|---|
|   | Amount (thousand yen)                                     | Amount (thousand yen)   |
| I Cash flow from operations                         |   |   |
| Net income before income taxes<br>and others        | 114,062   | 121,798   |
| Depreciation and amortization                       | 121,153   | 149,080   |
| Intangible fixed asset depreciation                 | 136,049   | 125,475   |
| Increase in allowance for doubtful<br>accounts      | —   | 136   |
| Data communication service cost<br>reserve decrease | △26,667   | △265,966  |
| Interest and dividends received                     | △1,581  | △258  |
| Interest charges                                    | 373   | 1,480   |
| Loss on disposal of fixed assets                    | 115   | 29,368  |
| Decrease in notes and accounts<br>receivable        | △30,039   | △7,321  |
| Decrease in inventories                             | 3,708   | 219,700   |
| Increase in trade payables                          | 134,312   | △74,593   |
| Increase in deferred revenue                        | △39,862   | 482,739   |
| Increase in accrued consumption<br>tax              | △75,714   | 81,445  |
| Increase in accrued expenses                        | 17,857  | —   |
| Others  | △2,777  | 86,077  |
| Subtotal  | 350,989   | 949,161   |
| Net receipts of interest and<br>dividends           | 1,581   | 258   |
| Interest paid                                       | △373  | △1,480  |
| Corporate and other income taxes<br>paid            | △8,715  | 1,673   |
| Net cash flows form operations                      | 343,482   | 949,613   |

|   | 3Q FY2005<br>(From April 1, 2005 to<br>December 31, 2005) | Previous consolidated<br>accounting period<br>(From April 1, 2204 to<br>March 31, 2005) |
|---|---|---|
|   | Amount (thousand yen)                                     | Amount (thousand yen)   |
| II Cash flow from investing                         |   |   |
| Purchase of tangible fixed assets                   | △179,308  | △196,565  |
| Purchase of intangible fixed assets                 | △706,944  | △389,939  |
| Income from loan collection                         | —   | 10,643  |
| Security deposit payment expense                    | △4,983  | —   |
| Other   | △33,586   | △6,990  |
| Net cash flow from investing                        | △924,822  | △582,852  |
| III Cash flow from financing                        |   |   |
| Increase in short-term borrowing                    | —   | △80,000   |
| Income from share issuance                          | 1,919,107   | —   |
| Repayment of long-term debt                         | △67,509   | △66,000   |
| New share issuance expense                          | —   | △14,850   |
| Income from exercise of warrants                    | —   | 27,003  |
| Treasury stock acquisition expense                  | △929  | △1  |
| Installment repayment expense                       | —   | △43,108   |
| Other   | —   | △110  |
| Net cash flow from financing                        | 1,850,667   | △177,065  |
| IV Exchange difference in cash and cash equivalents | 10,491  | 592   |
| V Net increase in cash and cash equivalents         | 1,279,818   | 190,287   |
| VI Cash and cash equivalents at beginning of period | 978,117   | 787,830   |
| VII Cash and cash equivalents at end of period      | 2,257,936   | 978,117   |