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Period of: March 2006

Flash Financial Report (Consolidated)

May 25, 2006

Company Name: Japan Communications Inc. Listed Securities Exchange: Osaka Securities Exchange, Hercules
 Stock Code: 9424 Location of Head Office: Tokyo URL: http://www.j-com.co.jp

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Board of Directors meeting convened: May 25, 2006

Was this report prepared in line with U.S. Accounting Standards? No

1. Consolidated results (April 1, 2005 to March 31, 2006)

(1) Consolidated results of operations (Amounts rounded down, percentages are rounded).

	Net Sales		Operating Profit		Ordinary Income	
	million yen	%	million yen	%	million yen	%
Year ended Mar 2006	4,943	8.4	173	-4.0	113	-25.9
Year ended Mar 2005	4,559	-18.4	181	—	153	—

	Net Income		Net Income per Share	Diluted Net Income per Share	Net Income to Shareholders' Equity	Ratio of Total Assets to Ordinary Income	Ratio of Net Sales to Ordinary Income
	million yen	%	yen	yen	%	%	%
Year ended Mar 2006	107	-4.0	495.40	474.61	4.0	2.8	2.3
Year ended Mar 2005	112	—	629.98	—	7.0	5.7	3.4

(Notes)

- ① Profits and losses due to holding investment period: FY ending March 2006: — million yen FY ending March 2005: — million yen
- ② Weighted average shares during this FY (Consolidated): FY ending March 2006: 217,910 shares FY ending March 2005: 178,454 shares
- ③ Changes in accounting method: None
- ④ The percentages displayed indicate any gains/losses compared with the previous year in terms of Net Sales, Operating Profit, Ordinary Income and Net Income.

(2) Consolidated financial status

	Total Assets	Shareholder's Equity	Shareholders' Equity Ratio	Shareholder' Equity per Share
	million yen	million yen	%	yen
Year ended Mar 2006	5,364	3,733	69.6	16,657.01
Year ended Mar 2005	2,792	1,683	60.3	9,395.04

(Note) Shares outstanding (consolidated figures): period: March 2006 224,177 shares / period: March 2005 179,204 shares

(3) Consolidated cash flow status

	Cash Flow from Operations	Cash Flow from Investing	Cash Flow from Financing	Cash and Cash Equivalents
	million yen	million yen	million yen	million yen
Year ended March 2006	154	-1,609	2,375	1,885
Year ended March 2005	949	-582	-177	978

(4) Scope of consolidation and Equity Method applied

Consolidated subsidiaries: 2 companies

(5) Change in scope of consolidation and Equity Method applied

Consolidated (New): 1 company

2. Forecast consolidated results for the year ending March 2007 (April 1, 2006 to March 31, 2007)

	Net Sales	Ordinary Income	Net Income
	million yen	million yen	million yen
Interim Period	—	—	—
Full Business Year	6,193	283	277

(Reference) The (full business year) forecasted net income per share is 1,271.16 yen.

- * In order to expedite the settling of accounts, from the next fiscal year (the year ending March 2007) the sales accounting standard for JCI's telecom services will be changed. Therefore, the JCI telecom services sales period for the next fiscal year will be 11 months. It is anticipated that this will negatively influence net sales and income for that period by 156 million yen and 31 million yen, respectively. This has been included in the formation of the above forecast.
- * The above forecast, as much as possible, takes into account the current status of the market and future precedents, forecasts and business plans. However, due to uncertain risks such as the state of the global economy, competitors and currency exchange rates, actual performance may differ greatly from the figure forecasted above.

I. Group Companies

Japan Communications Inc. and its consolidated subsidiary (hereafter referred to as our group) is engaged in businesses providing unique wireless communication services, using the wireless communication networks of mobile carriers and public wireless LAN spots. The position of the consolidated subsidiary of our group is as follows.

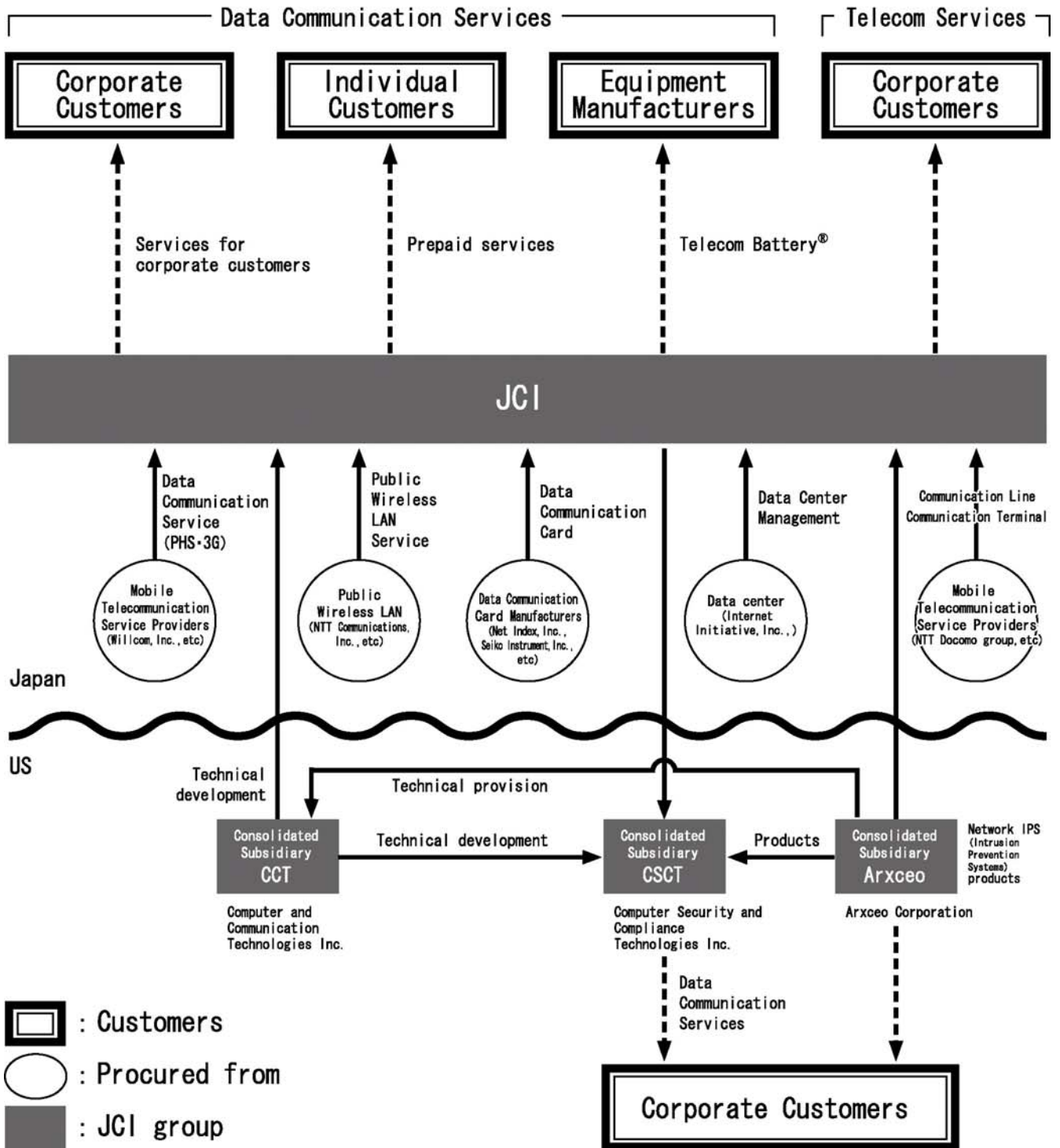
Name	Location	Capital	Principle Business	Voting Rights Percentage		Internal Relations
				Owned by Parent (%)	Owned by Subsidiary (%)	
Computer and Communication Technologies, Inc.	Englewood, Colorado, USA	US\$ 200.01	Development of data communication related technology and services, as well as the development and implementation of billing systems.	100.0	—	Outsourced development of technology and services, as well as the implementation of part of our group's services. BOD members to parent company: 2
Arxceo Corporation	Huntsville, Alabama, USA	US\$ 232.60	Development and sale of network IPS (Intrusion Prevention Systems) technology and products	58.0	—	BOD members to parent company: 1

The type and content of the services offered by our group (hereinafter referred to as "our services") are as follows.

Type of Services	Summary of Principle Services
Data communication services	<p>Using the wireless communications network provided by mobile carriers, we offer wireless data communication services with value added services such as improved security and user friendliness through the development of our own technologies, such as network control software.</p> <p>① Services for Enterprises Aimed mainly at our enterprise clients, we provide wireless data communication services tailored to the challenges and needs of each client. We will design, develop, structure, support and implement these wireless data communication services. (Service commenced October 2001)</p> <p>② Services for Individuals Aimed mainly at our small to medium sized corporate clients and Individuals, we have packaged together data communication cards, network control software and the related network charges and Internet connection fees, in order to provide a prepaid wireless data communication service. (Service commenced December 2001)</p> <p>③ Telecom Battery® Aimed mainly at equipment manufacturers, we provide communications services as a hardware component. Until now, on top of buying the equipment, it was necessary to subscribe to a communication service provider. Now, we have made it possible to build this service into the equipment like a battery, which can then be sold as a convenient, fully functioning product. (Service commenced December 2002)</p>
Telecommunications service	<p>Mobile phone services (including PHS voice communication, hereinafter the same) aimed at enterprises with added value such as the choice of business or private billing and the breakdown of charges by division. These services are made available through the procurement of communications lines and mobile communications terminals from mobile carriers. (Service commenced January 1997)</p>

The flow chart for our group's business operations is as follows:

JCI Group: Business Flow Chart



(Note) Sales may be carried out through agents, PC makers, etc.

II. Corporate Direction

1. Outline of our Group's business

Our group is engaged in the business of providing our clients with high value added communication and communication related services. For many enterprises, it is extremely important to improve productivity by using advanced communication and communication related services. However, technological innovation in the communication services is progressing rapidly, so it is very difficult for customers to understand and choose the most up to date and optimal service. Our group has taken on the role of a "Telecommunication Integrator", offering clients this new and complicated technology in an understandable, easy to use form.

Our target customer segments include enterprises that seek to increase productivity in their organizations, such as in sales and field services, individuals whose objective is to improve their business efficiency, and equipment manufacturers that require built-in communication functionality.

Our group does not own any wireless communications infrastructure. Our business model involves procuring the necessary communications lines and technologies, integrating them using our group's expertise and technology, and finally packaging the services into an accessible form for our clients. Complementary technologies such as security, are becoming increasingly important to data communication services. Thus, data communication alone is no longer enough to fulfill customer needs. Our business model stems from the recognition that from the point of view of our clients, there is a demand for a complete integrated solution with all the services necessary for data communications.

2. Our policy concerning the distribution of profits

Our company considers the financial return to our shareholders an important aspect in running our business. We intend to take measures to maximize return to our shareholders by balancing investment in the expansion of our current business with that of our new businesses and internal reserves. Our group has introduced incentive plans such as stock options for our directors, auditors, and employees in both the company and its subsidiary in order to encourage participation and contribution to the business. Our group plans to continue granting stock options in the future to maintain and increase the morale of the directors and employees, as well as to create an incentive to attract talented people.

3. Thoughts on tradable units of shares

We would like to further attract investment from individual as well as institutional investors. Therefore, we intend to maintain a unit number of shares for trading that will make it easier for individual investors to invest in our company.

4. Key management performance indicators

Our group has focused on the transition of our main operations from mobile phone services, which we have provided to corporations since our establishment, to data communication services that we have offered since 2001. For this consolidated fiscal year, data communication services accounted for 58.9% of net sales and 77.3% of gross profits, indicating that it has indeed grown to become our group's main service.

Additionally, providing high value-added services is our principle objective, and we believe achievement of this will be reflected in our gross profit to sales ratio (gross margin ratio). As such, this is one of our management indicators. Specifically, we aim to have profitability in the 40's% in the medium term, and will continue to put our efforts into fulfilling this aim. The gross margin ratio reached 50.7% during this fiscal year.

5. The group's management strategies for the mid and long-term

The group's business development is divided broadly into two areas: data communication services and telecom services.

For our data communication services, we lease a mobile network from a mobile communications carrier, build our own in-house network on top of it, and offer it to clients as a PHS business. Since October 2001, Willcom, Inc. has supplied our company's wireless communication network. With our data communication service offerings, we target three main client categories; corporations, individuals, and equipment manufacturers.

Data Communication Services for Corporate Clients. Imagine, for example, sales department employees who, while preparing to meet with clients, use information devices such as notebook PCs or PDAs connected to wireless network services in order to access their company's internal network from outside the office. In this example, it would be necessary to provide bundled network access, software and support, and we at JCI make every effort to offer this end-to-end service. In this fiscal year we strove to distinguish ourselves from other cellular phone/PHS businesses by placing a particular emphasis on security countermeasures. We offer total service to allow customers safe yet easy access to their corporate networks from outside the office.

Data Communication Services for Individuals. We sell data communication cards bundled with wireless communication services, Internet connection services and easy-to-use software at high-volume PC retailers. In March 2005, we introduced b-mobile hours®, a product not limited to a six- or twelve-month period, but rather offering a total of 150 hours of wireless Internet connectivity to be used entirely at the customer's discretion. During 2005, b-mobile hours® grew to become our company's leading product for individual consumers. At the same time, as this product's unit price was lower than previous products; we were able to increase the number of stores carrying it.

Data Communication Services for Equipment Manufacturers. We are expanding the sale of wireless communication devices to manufacturers of ubiquitous products, i.e. devices designed to be connected to a wireless network. Until now, in order to use communication services, it was necessary to sign a contract with a telecommunications carrier. In reality, this meant that the development and sale of ubiquitous products and services, either by telecommunications carriers or by device manufacturers, required the users to sign contracts with separate carriers. Given this limitation, ubiquitous products became less attractive to manufacturers, an important factor that hindered their diffusion. Having identified this problem, our company offered the Telecom Battery® to device manufacturers. We have already introduced the Telecom Battery® into a wide range of products. Indeed, we are currently in discussion with a variety of manufacturers regarding the Telecom Battery®, and use trials are taking place. Furthermore, we are actively building industry partnerships, such as our cooperation agreement with NEC Magnus Communications, Inc. (formed in December 2005) to promote the application of the Telecom Battery®.

We believe that mobile data communication service providers must provide solutions for the problems and dangers related to Internet security. This is why, on March 3, 2006, we acquired Arxceo Corporation (headquarters: Huntsville, Alabama, USA), a market-leading developer of network anti-reconnaissance and IPS (Intrusion Prevention System) technology. Incorporating their IPS into our PC software will allow us to equip customers who use notebook PCs outside the office with network IPS, which we believe will be a major distinguishing factor for our services.

We intend to leverage the technology and know-how acquired through operating in Japan, the world's most advanced mobile communications market, to conduct business on a global level. As a first step towards fulfilling this vision and in order to begin US operations, JCI completed a wholesale contract agreement with Verizon Wireless, a US-based mobile communications provider, in December 2005. We began offering wireless data services in the US in March 2006. On April 3, 2006, we established a new subsidiary, Communication Security and Compliance Technologies Inc. (CSCT) (headquarters: Georgia, USA) to manage the new US operations.

As the mobile communications industry offers cellular phone and PHS telecom services to corporate clients, customized charging and billing services that allowed us to separate official from private use was our special value-added service. We have offered telecommunications services from the time of the company's founding in 1996, but we are now gradually reducing those services in order to focus on data communication services, which were begun in 2001.

6. Challenges facing the Group

① Perspective on our current status

The market for wireless data communication services, the driving force behind the JCI Group, is still in the early stages of its life cycle. This is true even in Japan, home to the world's most advanced wireless data communications market. Mobile telecommunications providers, which own the wireless communication infrastructure, generate the vast majority of their sales from voice communication services. Wireless data

communication services, of which NTT DoCoMo's *i-mode* is the leader, can be seen simply as an option attached to voice services and as such account for only a fraction of the revenue generated by the dominant voice services.

Meanwhile, following the lead of JCI, many companies including Fujitsu Inc., NTT Communications, Inc., Kyocera Communications Systems, Inc., Mitsubishi Electric Information Networks, Inc., and Sony Communications Networks, Inc., have borrowed space on the network of a mobile telecommunications providers and became MVNOs (Mobile Virtual Network Operators). All of them appear to be developing in a similar manner as at the present time, these MVNOs are acquiring their communications network from PHS provider Willcom, Inc. While they are expanding their services, none are ready to provide services on a third-generation (3G) network. We believe that both PHS and 3G networks are important for mobile data communication, and hold that it is of the utmost importance to be able to use both.

JCI currently provides access to the largest number of wireless LAN spots in Japan. However, as there is still no established wireless LAN spot business model, we provide this access as an add-on option to our PHS and 3G services.

The task of growing the wireless data communication services market is an area of overlap for the communication and computer industries, which differ greatly in terms of culture, scope and regulation. The reality of such an inter-industry field is that it inherently consists of many disparate themes and only a limited number of people can understand and unite them.

Furthermore, as Internet usage increases, so does the importance of issues relating to security. Due to factors such as the, "Act on the Protection of Personal Information" and corporations' demands for internal controls, it is necessary for corporations that use IT outside the office to implement comprehensive security counter-measures. It may be stating the obvious, but sales and services people cannot adequately fulfill their tasks without leaving the office. In order to improve their productivity, it is necessary to allow them to use IT outside the office, as well as to provide wireless network data services with built-in security.

The state of wireless data communications is as true in Japan, a country famous for its advanced technology, as it is abroad. For example, we recognize great market potential in the U.S., given the continued construction of 3G cellular phone networks specializing in wireless data communication, and the passage of SOX (Sarbanes-Oxley Act, or the Public Company Accounting Reform and Investor Protection Act) and its extensive legislative demands.

② Near-term challenges

Due to the current state of wireless data communication services, which we recognize is still in the early stages of its market life cycle, we believe that expanding our services and strengthening our business to meet the increasing demand are important issues needing our immediate attention.

Thorough investigation of the potential application range of data communication services will allow us to identify the best possible implementation methods for each application field. Therefore, we are tasked with building and offering services that can expand into a wide range of fields, as well as respond to and accurately match customer needs. Naturally, the development and acquisition of core technologies fundamental to developing new services are prerequisites.

With respect to strengthening our business, it could be said that as wireless data communication services have not usually been supported in corporate IS departments up to now, concrete sales methods have not yet been established. It follows, then, that there are few talented and experienced people with actual business achievements in this and similar markets. At our Company there is thus a persistent need to educate talented people and continue to establish business methods. However, it takes a certain amount of time for this process to generate results. In order to succeed, a sales partner needs to be familiar with the needs of customers in individual fields and to promote business cooperation.

Moreover, building on the technology and knowledge that we have fostered in Japan, we have initiated business development activities in the U.S. Since we are starting from zero, it is likely that we will face far-reaching, difficult challenges. As business development in the U.S. is under pressure from the demands of high level security, a trend we feel will soon be reflected in business development in Japan, we are actively

strengthening the company's security technology and know-how.

③ Action Plan

In order to meet the challenges listed above, our Group will emphasize the following action items:

- (a) Further strengthen technical development
Consistently develop technologies that match both evolving customer needs and the technological trends of the mobile telecommunications and IT industries.
- (b) Further strengthen our marketing abilities
Ensure the continued development of technically feasible and competitive services, which respond effectively to the current and future needs of current and potential customers.
- (c) Further strengthen sales
Nurture and educate talented people who understand the technical aspects of the constantly evolving IT and communications industries.
- (d) Strengthen our procurement negotiation ability
As an MVNO that leases the communications infrastructure of a mobile telecommunications provider, it is of the utmost importance to continually improve our network supply and procurement conditions.
- (e) Human Resources
As an MVNO focused on data communication, our Group's business model is the first of its kind in the world. In order for business development to take place in this environment, we must secure talented people who possess the ability to conceive of new ideas, to get things accomplished, and to learn.

7. Notes regarding parent company

Nothing to report

III. Business results and financials

1. Business results

The mobile telecommunications market remained firm during this consolidated fiscal year, with the number of mobile phone and PHS subscriber lines reaching 96.48 million as of March 2006 (Telecommunications Carriers Association statistics), an increase of 5.5% over March 2005. In addition, three new companies signed on as cellular phone carriers in November 2005, and we anticipate further growth in the mobile telecommunications sector. Furthermore, in December 2004, the Ministry of Internal Affairs and Communications unveiled u-Japan, a policy that seeks to realize the ubiquitous networked society. Introduced in 2005 and scheduled for full implementation by 2010, this policy is seen as the way to accelerate the construction and application of wireless networks, thus adding to the broadband environment that has been cultivated in Japan up to this point.

In the PC industry, domestic shipments showed a expanded strongly in fiscal 2005 (from April 2005 to March 2006), growing by 9.3% over the previous year to 12.86 million (Japan Electronics and Information and Technology Industries Association statistics). In particular, shipments of notebook PCs increased 12.0% over this period, to 7.08 million units, as PCs were used in a wider variety of locations. At the same time, influenced by such factors such as broad enforcement of the Act on the Protection of Personal Information in April 2005, many corporations have prohibited employees from taking notebook PCs outside the office. However, there is a clear increase in the productivity of those employees, such as sales and service staff, who can carry out their duties while outside the office if they have remote access to the corporate network. How to access the company network from outside the office in an efficient and secure manner has become the important question.

As Japan's first MVNO, our Group has been developing telecommunication services and data communication services consistent with the business strategies detailed above. As a result of this, total sales for this FY reached 4,943 million yen (an increase of 384 million yen (8.4%) over the previous year). Of this, total sales for our core business – data communication services – amounted to 2,910 million yen (an increase of 1,020 million yen (54.0%) over the previous year). Regarding profit and loss, in order to consolidate and promote the growth of our highly profitable data communications services, SG&A (sales, general and administrative)

expenses grew to 310 million yen (a 21.8% increase), and operating profit came to 173 million yen (a decrease of 7 million yen (4.0%) from last year). Further, total costs related to the listing of our stock in April 2005 amounted to 69 million yen. Our ordinary profit amounted to 113 million yen (a decrease of 39 million yen), with net income for this FY totaling 107 million yen (a decrease of 4 million yen).

2. Financial situation

Cash and cash equivalents (hereafter cash) increased by 907 million yen over this fiscal year and stood at 1,885 million yen at the end of this fiscal year.

The cash flow situation for this fiscal year, categorized by source, is detailed below.

Cash flow from operating activities

Costs of 69 million yen were accrued from the listing of our stock and the inventories for new data communications cards increased by 175 million yen. Therefore, while the operating activities transition went well, cash from operating activities amounted to 154 million yen this fiscal year.

Cash flow from investing activities

Net cash spent for investing activities was 1,609 million yen (582 million yen was used in the previous fiscal year). Of this; 984 million yen was spent on the development or purchase of internal-use software for our Group's data communication services; 209 million yen was spent purchasing network and mobile terminal equipment; and 388 million yen was spent on the acquisition of a consolidated subsidiary.

Cash flow from financing activities

The cash increase resulting from financing activities was 2,375 million yen (177 million yen was used previous year). This increase is attributable to the issue of new shares on the stock exchange, which raised 1,943 million yen, and an increase in short-term borrowings.

Cash flow trend

	March 2002	March 2003	March 2004	March 2005	March 2006
Equity Ratio	61.0	71.6	59.3	60.3	69.6
Market capitalization to Asset ratio	—	—	—	—	480.5
Debt redemption (No. of years)	—	—	—	0.1	3.2
Interest Coverage Ratio	—	45.8	—	641.6	122.4

Equity Ratio: Shareholders' equity / Total assets

Equity Ratio based on market price: Aggregate market value of listed stock / Total assets

No. of years of debt redemption: Debt with interest / Cash flow from operations

Interest Coverage Ratio: Cash flow from operations / Interest payments

- ❖ All calculations are based on consolidated financial figures.
- ❖ Stock Market Capitalization is calculated as follows:
Closing share price at the end of the consolidated fiscal year × (multiplied by)
outstanding shares (not including treasury stock) at the end of the consolidated fiscal year
- ❖ Cash flow represents operational cash flow. Debt with interest represents all debt summed up on the table on which interest is paid.
- ❖ With regard to the Market capitalization to Asset ratio for fiscal years ended March 2002, 2003, 2004 and 2005, the stock was not yet public, thus the figures have been left out.
- ❖ With regard to the number of years of debt redemption and the interest coverage ratio for the years ended March 2002 and 2004, the figures have been left out because the cash flow from operations for this period was negative.

3. Business and other risks

Risks that may have an influence on our group’s business developments, business results, or financial standings include the following matters. We have included points that may not apply directly to such risks, but which we consider to be important in terms of disclosing information actively to our investors in order for them to make sound decisions about their investments. They do not represent all the risks related to investing into our company’s shares.

Issues concerning the future within the paragraphs below are judgments made by our group, taking into consideration our current standing at the end of this consolidated fiscal year.

① The market

Our company has been engaged in business expansion in the mobile communication market since our establishment. Mobile communications can be roughly categorized based on usage as voice communication, and data communication. With respect to the voice market, mobile phones have become so widespread that the market has nearly reached saturation and maturity. On the other hand, data communications have only just come into general use as communication methods shift from circuit switching to packet transmission. The industry is in the early stages of growth. Additionally, fixed line data communication using broadband connections such as ADSL or optic fiber have spread rapidly, but data communication using mobile lines has been limited by technology, especially concerning performance. Looking at the industry as a whole, it can be said that the demands of customers surrounding connection speed and security have yet to be fulfilled.

With the rapid advance of wireless communication technology and security technology that we are seeing, we believe that such technical problems will eventually be solved and the standards will rise as high as customers wish them to be. However, if this technological progress does not happen in the time frame that we have estimated, there is the possibility that the market in which our group operates will not expand as rapidly as we believe, or its expansion will be delayed. In such a case, there is a possibility that our group’s business results will be adversely affected.

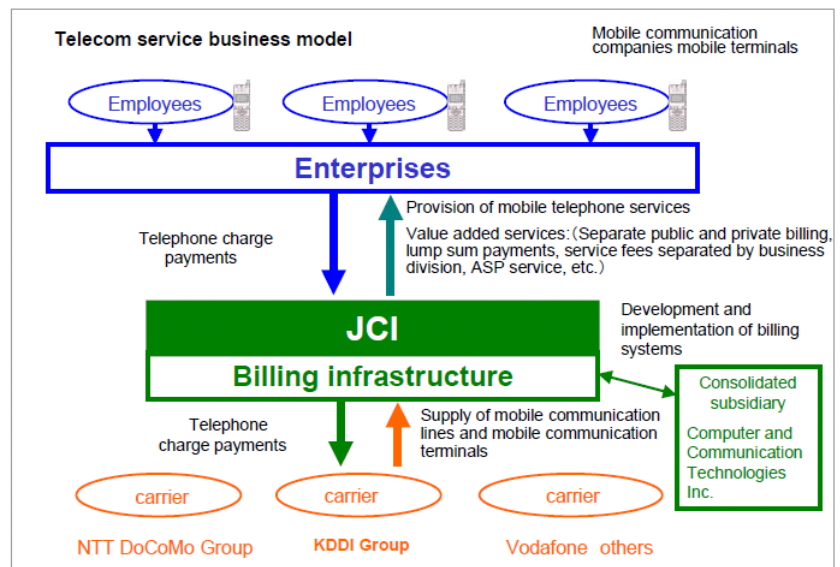
② The structure of our company’s services

(1) Mobile communication lines

Our services can be roughly divided into two categories: telecommunication services that provides enterprises with mobile telephone services and data communication services that provide enterprises and individuals with wireless internet and other data communication. The structure of each service is as follows.

① Telecommunication services

For our telecommunication services, our company is supplied with communications lines and mobile handset terminals from mobile communication businesses such as NTT DoCoMo Group, KDDI Group (including Tu-ka Group), Vodafone K.K., and Willcom, Inc. (formally DDI Pocket Ltd). Contracts are made with our corporate clients to either lend or sell mobile communication terminals and provide communication services using these terminals. In doing so, we can provide two lines from one mobile communication terminal, one for business (public) and one for private (for the employees private use), by separating the telephone costs and providing separate bills. We receive detailed usage data for each of the mobile communication terminals from each of the mobile carriers on a monthly basis, and using the billing system developed and implemented by our company’s consolidated subsidiary, we process the necessary

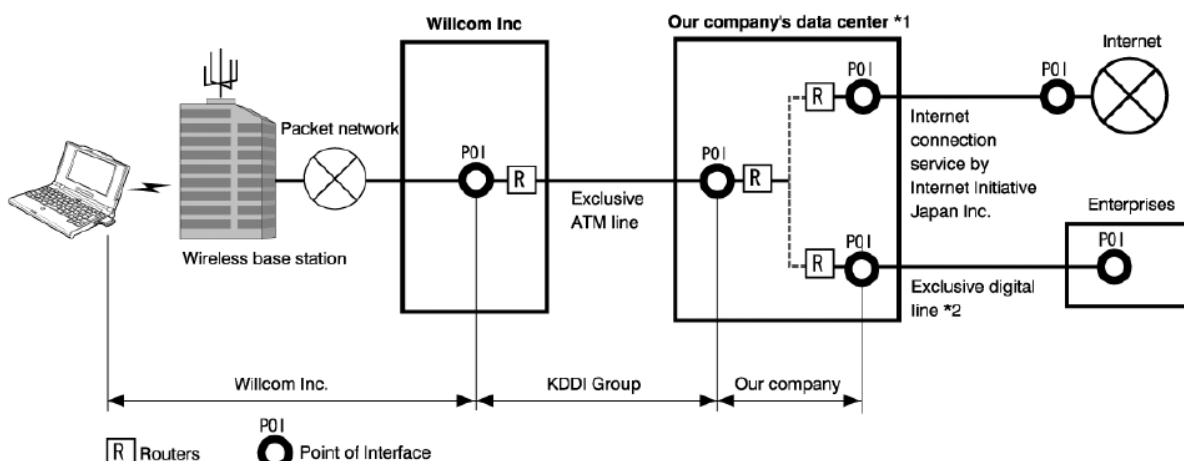


data to provide the value-added charge and billing service as laid out above. As part of our telecommunication services, we offer a service where functions such as daily business reports or expense calculations can be carried out through applications accessible via mobile phone browsers. A part of the system related to this service is hosted at a data center run by Internet Initiative Japan Inc. (IIJ)

② Data communication service

For our data communication service, our company is supplied with a PHS communication network by Willcom, Inc. Features such as security technology, speed acceleration, and network control software are added to the data communication service using this communication network, and then offered to our clients. The infrastructure of the service is made up of a PHS communication network and data center at Willcom, Inc., an exclusive connection point to KDDI Corporation, and the data centers of each group. Their relationships can be seen in the diagram below. The most important systems of each group's data centers are stored within the data center run by Internet Initiative Japan Inc. (The PHS communication network and the other systems mentioned above will be referred to as the "main infrastructure of our data communication service".)

Figure 2. Main infrastructure of our data communication service



*1 Stored within the data center of Internet Initiative Japan Inc.
 *2 Of the exclusive digital lines that connect our company's data center and our corporate clients, there are cases where we receive the lines and supply them to the clients, or where the clients receive the feed and the data center is supplied.

With regards to our data communication service, we also provide a wireless LAN spot service to which we then add features such as an easy-to-use operating interface and network control software.

As stated in ① and ② above, the mobile communication lines and the PHS communication network that are essential to the structure of our telecommunication and data communication services respectively are both supplied by other mobile communication businesses.

Therefore, the maintenance for the mobile communication lines and PHS communication network is carried out by the supplier. In order for our group to provide our clients with a reliable service, it is a prerequisite that the lines and network at each source are in full functioning order. When this is not the case, our services may be partially or fully suspended or the quality of our services may drop, possibly having adverse effects on our business.

Moreover, for our supplies of lines and networks, our group has agreed upon a contract with each of our suppliers. By actively proposing ideas on new technologies or services, we have worked to create a close relationship with our suppliers and to maintain and strengthen our negotiating power. Despite this, there is no guarantee that at the moment of renewal, the contract will be written with the same conditions of supply as before, and there is also no guarantee that we will be successful in negotiating improvements in the conditions. Furthermore, there may be situations where, because of a change in the business policy of a supplier, our

group is put in a position where we must accept conditions that are less favorable than before. In such cases where our group is not able to maintain or improve conditions of purchasing from our suppliers, or when conditions worsen, it is possible that this would have adverse effects on our business.

In addition, it cannot be denied that we are, and will be for our business' future developments, dependent on each of the mobile communication businesses that are our suppliers. In other words, the expansion of the area where our services can reach depends on the expansion of the areas covered by the lines or network of the mobile communications businesses, just as any improvements in the speed or capacity of the communication depends on improvements in the lines or network of each supplier.

(2) Impediments to the network system of communication lines and networks

As parts of the service structure are supplied by other mobile carriers, there is always the possibility that the network systems of the communication lines and networks of each supplier will be impeded in some way, even when the suppliers themselves have carried out adequate system maintenance and management. It may be overloaded in times of busy access traffic, there may be intrusion from outside, staff may make an internal error, or damage may be caused by natural events or accidents. When such an events occur, our services may be partially or fully suspended or the quality of our services may drop, possibly having adverse effects on our business.

Concerning the network system within the data center of our group, we have set up a system that constantly monitors its status and also runs regular tests, in order for us to be able to find out in advance if any problems may occur. We have also set up a system to contact suppliers in case problems do occur, cutting the recovery time down significantly.

However, despite such measures being in place, it is not possible to prevent the occurrence of setbacks completely. There are very big costs involved in responding to such setbacks, so depending on the scale or other factors of the problem, it is possible that this would have an adverse effect on our business.

Additionally, our group is involved in using various network equipment and computer systems (including software), including those developed by us. If problems were to occur with the equipment and systems, for example by incorrect configurations, or a bug (including the running of general software purchased externally), our services may be partially or fully suspended or the quality of our services may drop, possibly having adverse effects on our business.

(3) Network systems

Because our data communication service uses mobile communication technology, the speed of the connection depends on the location of use, the strength of the reception at the time of use, and the state of traffic at the base station. Also, when using an Internet connection, the speed is dependent on the Internet connection speed as well as the connection speed of the exclusive line between the data center of our group and the mobile carriers, and the processing speed of the network system and computer system within the data center. In addition to this, in cases where our corporate clients are connected to our group's data center via an exclusive line, the connection speed is also dependent on the speed of this line.

Our group is making efforts to secure enough capacity in the network to adequately supply what is necessary by having a clear understanding of the clients and their usage patterns, and predicting the number of future clients and their usage patterns as well. However, in cases where the capacity of the network system that we manage does not meet demands, it may slow down the connection speed, possibly having an adverse effect on our business.

On the other hand, if we were to greatly increase the capacity of the network system to more than the demand, the cost would be so great that it may have adverse effect on our business.

(4) Technological revolution

The data communication service that our group provides, uses PHS communication, wireless LAN technology, TCP/IP network technology, the Microsoft Windows operating system, Radius authentication system – the

standard in authentication technology, and others. If these technology standards were to go through a sudden, significant change, we will be faced with great costs in developing new technologies in response to these changes, putting pressure on our profits and possibly causing adverse effects on our business. Furthermore, if we were to be late to respond to these technical changes, or if the technology used for our services or our services themselves were to become obsolete, this may adversely effect our business.

3. Our business operations

(1) The purchasing of mobile communication terminals

For our telecommunication service, we purchase mobile phone and PHS handsets from the mobile carriers mentioned above, and for our data communication service, we purchase data communication cards from multiple suppliers. Depending on the conditions of the market at the time, or the policies of the mobile carriers, the purchasing conditions may differ for each transaction.

Our group has made efforts to improve the conditions for the purchase of mobile communication terminals, but despite our efforts, it is possible that we will face an increase in costs or miss some business opportunities because we are unable to supply our clients in time, which may have adverse effects on our business. Furthermore, if a problem occurs with the quality of the mobile communication terminals, services may have to be suspended, possibly having adverse effects on our business.

(2) The risk of mobile communication terminals becoming obsolete

For our telecommunication service, there are cases where, under contract, our group will lend mobile communication terminals to our corporate clients for a fixed period, but when new products appear on the market, or if the clients request it, we may replace, at our expense, the mobile communication terminals before the contract terminates. The expenses involved in the supplying of new mobile communication terminals may have an adverse effect on our business.

Additionally, the supply of data communication cards used for our data communication service comes from the manufacturers of mobile communication terminals, primarily based on an OEM Supply & Purchase Agreement. However, the minimum order for these cards tends to be very large, and there are cases where we must order an excessive number of cards in relation to demand. There is then the risk that the stock will become obsolete. Our group has endeavored to stay in close contact with the mobile communication terminal manufactures, and to predict as accurately as possible the demand based on sales conditions, but if the mobile communication terminals we purchased become obsolete, or we miss a business opportunity because there is a delay in the time of order, this may have an adverse effect on our business.

(3) Marketing force and technological development capabilities

We believe the results of our group's business is based on our ability to grasp and understand the services that customers want or will want to use, and to be able to provide these new services. In other words, it is up to our marketing and technological development skills to swiftly keep up with the drastic changes that occur in this industry, or to predict the changes and move the business on accordingly. If our group is unable to maintain the capabilities needed to do this, or we are unable to improve them, then we may miss a business opportunity. That may have an adverse effect on our business.

(4) The securing of personnel

As our group is conducting business in a relatively new area, we rely greatly on the experience, skills, and expertise of a few individuals. There is no denying that the loss of such personnel would affect our business. As our business expands, we intend to enhance and strengthen our organization by securing valuable personnel. However, attracting exceptional talent is not an easy task as we are reliant on a limited pool of human resources. When trouble arises with an employee's performance, or an employee leaves our group after only a short period of time, our business may be adversely affected.

(5) Dependency on a specific person

The founder and CEO of our company, Frank Seiji Sanda (referred to as "CEO" hereafter in this paragraph) served as Managing Director at Motorola Japan Ltd. from November 1989 and as Representative Director at Apple Computer Japan, Inc. in 1994. The personal connections and experience he gained in the mobile communication and PC industry in Japan and abroad, plays a very big role in making decisions about our company's business policies or strategies. Our group has been trying to develop an organization that will not excessively depend on the CEO, taking measures such as employing highly talented personnel from outside.

However, it cannot be denied that there is still a high level of dependency on a few executives, which means that if the CEO or other executives were to leave our group, our business may be adversely affected.

4. Competition

Our group offers telecommunication services including mobile telephone services for corporate clients, and data communication services using the wireless infrastructure of mobile carriers. The circumstances concerning our competition are as follows.

(1) Competition in the telecommunication service sector

The telecommunication service offered by our group is unique in its billing processing service, including the separation of business and private calls, or the categorization of charges by division, but other mobile carriers and lump sum payment businesses have now begun to offer similar services. We wish to remain competitive by diversifying the categorization of our billing methods. However, despite our efforts, if another competing company starts to offer an even better service, or if a competitor with far richer resources than our group launches a strong sales challenge, our business may be adversely affected.

(2) Competition in the data communication service sector

The market for wireless data communication services is still in an early stage of growth, but is expected to grow rapidly. For this reason, we assume that there will be new entries in the future, intensifying competition even further. In particular, this area of service has two sides; the communication services offered by network operators, and the system services offered by computer related businesses. Therefore, we believe competing services may be introduced from both the communication business and computer related business sides as follows.

① Mobile carriers

Mobile carriers, who own mobile infrastructure, have overwhelmingly more plentiful resources available to them than our group. By taking advantage of this, they have the ability to provide lower cost, higher function services. Therefore, if mobile carriers were to advance into offering competing services, our group's competitiveness will be decreased or our net sales will decrease due to drastic price changes, which may adversely affect our business. On the other hand, the mobile carriers are also our suppliers of mobile communication lines and PHS communication networks. If they were to enter into competition with our services, there is a possibility that they will make amendments to our transacting conditions in order to make their own services more attractive. As this would surely limit our pricing options and the services we can offer, we may lose existing clients or not attract enough new clients, which may adversely affect our business.

② MVNO (Mobile Virtual Network Operators)

Because many of the MVNOs that are in competition with our company originated as fixed line network service providers, they already have existing clients of this service to whom they can sell their mobile communication services. This is a very valuable opportunity to expand their business. Also, in order not to lose their existing fixed line service customers, they may bring out a strategic pricing strategy for their mobile communication services. If these situations were to arise, we may be faced with a situation where we lose existing clients or do not attract enough new clients, which may adversely affect our business.

③ SI (System Integrators)

SI's conduct their business by customizing computer systems to best suit their clients' needs, and carry out, system proposals and planning, program development, selection and ordering of necessary hardware and software as well as maintenance of the completed systems. Through this, their ties with their clients go very deep. What's more, because they integrate diverse systems into one, the networking abilities of the systems tend to be very high. If SI's were to join together with mobile carriers and gain the capability to provide communication services, then they could become a very strong competitor for our group. If this situation were to arise, we may be faced with a situation where we lose existing clients or do not attract enough new clients, which may adversely affect our business.

5. Intellectual property and legal regulations

(1) The protection of intellectual property

The protection of intellectual property held by our group falls under regulations of contract and other related

laws. For the protection of our intellectual property, we have made efforts to apply for patents and have a good understanding of the movements in technology and expertise of other companies. However, there is no guarantee that the patents applications will be approved.

Furthermore, it is possible that the patents we have applied for or registered for the sake of protecting intellectual property, and those that we will register in the future, will not be sufficient, and that similar technology will be developed by other companies, even perhaps imitating our group's services.

Even in cases where our group has been granted the rights to a piece of intellectual property, there is the possibility that it will be violated by a third party. This is likely to be a hindrance to the smooth running of our business as we will inevitably have to allocate our limited resources to bring the violator to court and implement other preventative measures, possibly affecting our business adversely.

(2) Third party licenses

Our group has licenses from various third parties for network acceleration and security technology for our wireless data communication services. In the future, when we need to renew our existing licenses, it is possible that we will be unable to renew or receive licenses under favorable conditions or receive the licenses necessary for new services. In such cases, our advantage will be lost and our business may be adversely affected.

(3) Legal obligations

The operations of our group fall under the Electricity and Telecommunication Business Law. If this law was to be amended, and new regulations applied that tightens the restrictions on our business, it is possible that our operations will be limited and may lead to an increase in our costs. On the other hand, if the restrictions were to be loosened, it may encourage many new entrants to the market and intensify competition, possibly having an adverse effect on our business.

In accordance with the revision of the Electricity and Telecommunications Business Law enforced April 1, 2004, former Type-1 mobile carriers are now able to offer one-on-one prices to corporations. Thus, by offering discounts, price competition among providers may intensify, which may adversely affect our business.

Moreover, in the event self-imposed regulations that restrict our business were to be established in the industry in which we belong with respect to, for example, prepaid services, the services may be halted or their cost may increase and our business may be adversely affected.

(4) Protection of personal data

Our company is obliged to comply with the Law Concerning Protection of Personal Information (Law No. 57, partly enforced in May 30, 2003, wholly enforced on April 1, 2005). Our group deals with personal data as described below. In general, personal information is not obtained for our Infinity Care service, as it is part of our data communication service for corporate clients.

For our telecom services, with permission from the client we collect the names, addresses, payment methods, call logs, etc., of the employees of the client in order to provide them with our separate billing service and other services. This information is passed on to our consolidated subsidiary, Computer and Communication Technologies Inc., which carries out the data processing for our services.

For our data communication services, and in particular our prepaid service, we are likely to obtain the name, address, email address, and other information when clients register themselves as users, or when they contact our call center.

We make sure that the personal data we have collected is used only within the boundaries of our business operations and that it is accessible only by those with the proper authority. In addition, all employees, contract workers, and temporary employees must sign a confidentiality agreement upon joining our company, and in the call center, where they are most likely to be dealing with personal data, we hire mainly full-time employees only. Despite the fact that we have taken such measures to protect personal data, we cannot guarantee that there will be absolutely no leak of personal information from our group. If such a situation arises, this may lead to a loss of trust from our clients and lawsuits brought on by individuals, and our business may be adversely affected.

6. Others

(1) Our relatively short time in business

Our group was established in 1996, but we commenced our data communication services in 2001. The market for this service is relatively new, and it is still in the process of developing. The MVNO business model is also very young in Japan, making it impossible to rely on statistics and results of the general communication industry from the past years, let alone predict the factors that may possibly affect the MVNO business in the future, such as the transition of possible users, the reaction of markets, etc. Therefore, it is possible that there will be a great disparity in our profit forecasts, and that unexpected expenses will occur. In such cases, our business may be adversely affected.

(2) Raising capital

Our group plans to invest in the development and purchasing of network facilities, software and systems, in order to differentiate the company in the industry and promote the expansion of our business. However, if we are to face difficulties in securing the necessary investment capital, we may miss a business opportunity and our business may be adversely affected.

(3) The dilution of shares due to stock options

Our group employs incentive plans such as stock options to heighten awareness and encourage participation in the business by our company and our subsidiary's directors, auditors, employees and consultants. It includes the plan resolved at the general shareholders' meeting that, based on article 280 paragraph 19 of the Law of Commerce (enforced in 2002) from before the 2001 amendments, stock purchase rights would be granted to directors and employees of our company as well as to employees from our subsidiary. It also includes the plan resolved at the general shareholders' meeting that, based on paragraph 20, paragraph 21, and paragraph 27 of article 280 of the Law of Commerce, stock purchase rights would be granted to directors, auditors, employees and consultants from both our company as well as from our subsidiary.

If these stock option rights were to be exercised, the value of a single share of our company will be diluted, and may have an effect on our overall share value. The company intends to carry on with the granting of stock purchase rights as an incentive for directors, employees and consultants to keep up morale, while also attracting valuable talent to our group. Therefore we may see a further dilution of our stock value.

1 Consolidated Financial Statements

(1) Consolidated financial statements

① Consolidated balance sheet

Segment	Note No.	Year ending March 31, 2005		Year ending March 31, 2006	
		Amount (thousand yen)	(%)	Amount (thousand yen)	(%)
(Assets)					
I. Current assets					
1 Cash and equivalents		960,837		1,200,408	
2 Accounts receivable-trade		561,747		678,706	
3 Marketable securities		17,280		684,725	
4 Merchandise		38,532		65,972	
5 Inventory		115,297		272,002	
6 Accounts receivable – others		18,315		23,578	
7 Other		22,523		49,676	
Allowance for doubtful receivables		-1,000		-1,000	
Total current assets		1,733,534	62.1	2,974,071	55.4
II. Fixed assets					
1 Tangible fixed assets					
(1) Buildings		22,856		29,529	
Accumulated depreciation		5,459	17,396	9,214	20,314
(2) Vehicles		5,683		8,544	
Accumulated depreciation		4,563	1,120	5,500	3,043
(3) Tools, furniture & equipment		326,504		474,429	
Accumulated depreciation		162,376	164,127	240,001	234,427
(4) Mobile devices		177,526		149,113	
Accumulated depreciation		77,350	100,176	81,578	67,534
Total tangible fixed assets		282,820	10.1	325,320	6.1
2 Intangible fixed assets					
(1) Trademarks		3,195		3,096	
(2) Patents		1,074		950	
(3) Telephone subscriber rights		1,294		1,294	
(4) Software		698,112		653,937	
(5) Software in progress		–		841,854	
(6) Consolidated adjustments		–		459,586	
Total intangible fixed assets		703,676	25.2	1,960,719	36.5
3 Investments and other assets					
(1) Security deposits		47,930		53,296	
(2) Other		9,421		32,582	
Allowance for doubtful receivables		-19		-19	
Total Investments and other assets		57,331	2.1	85,859	1.6
Total fixed assets		1,043,828	37.4	2,371,899	44.2
III. Deferred assets					
1 New share issuing expense		14,850		18,526	
Total deferred assets		14,850	0.5	18,526	0.3
Total assets		2,792,212	100.0	5,364,497	100.0

① Consolidated balance sheet, cont.

Segment	Note No.	Year ending March 31, 2005		Year ending March 31, 2006	
		Amount (thousand yen)	(%)	Amount (thousand yen)	(%)
(Liabilities)					
I. Current liabilities					
1 Accounts payable		298,341		287,996	
2 Short-term debt		–		500,000	
3 Current portion of long-term debt		54,000		–	
4 Accounts payable – other		133,142		132,370	
5 Consumption tax payable		64,703		–	
6 Corporate and other taxes payable		16,927		13,520	
7 Deferred revenue		482,739		567,957	
8 Data communication service cost reserves		28,372		–	
9 Other		30,515		39,537	
Total current liabilities		1,108,741	39.7	1,541,382	28.7
II. Fixed liabilities					
Total liabilities		1,108,741	39.7	1,541,382	28.7
(Minority interests)					
Minority interests		–		89,404	1.7
(Shareholder's Equity)					
I. Capital stock	※1	1,518,947	54.4	2,269,710	42.3
II. Additional paid-in capital		383,056	13.7	1,576,246	29.4
III. Retained earnings		-140,853	-5.0	-32,899	-0.6
IV. Exchange conversion adjustment		-76,867	-2.8	-69,134	-1.3
V. Valuation balance of other marketable securities		–	–	-8,471	-0.2
VI. Treasury Stock	※2	-811	-0.0	-1,741	-0.0
Total shareholders' equity		1,683,470	60.3	3,733,710	69.6
Total liabilities, minority interest and shareholders' equity		2,792,212	100.0	5,364,497	100.0

② Consolidated income statement

Segment	Note No.	Year ending March 31, 2005			Year ending March 31, 2006		
		Amount (thousand yen)		(%)	Amount (thousand yen)		(%)
I. Net sales							
1 Revenue			4,559,431	100.0		4,943,987	100.0
II. Cost of sales							
1 Cost of sales			2,953,876	64.8		3,035,560	61.4
Gross profit			1,605,554	35.2		1,908,427	38.6
III. Selling, general and administrative expenses	※1		1,424,373	31.2		1,734,476	35.1
Operating profit			181,181	4.0		173,950	3.5
IV. Non-operating income							
1 Interest income		258			8,607		
2 Foreign exchange gain		–			22,852		
3 Miscellaneous income		1,261	1,520	0.0	557	32,017	0.6
V. Non-operating expenses							
1 Interest expense		1,480			493		
2 Foreign exchange loss		38			–		
3 Expenses related to IPO		27,000			69,369		
4 New share expense amortization		–			9,263		
5 Loss on sale of securities		–			12,800		
6 Other		511	29,029	0.6	161	92,088	1.9
Ordinary income			153,671	3.4		113,880	2.3
VI. Extraordinary loss							
1 Loss due to prior period adjustment	※2	653	–		–		
2 Loss on disposal of fixed assets	※3	29,368			115		
3 Loss on cancellation of lease contracts		1,851	31,873	0.7	–	115	0.0
Net income before income taxes and minority interests			121,798	2.7		113,764	2.3
Corporate, resident and business taxes			9,374	0.2		5,810	0.1
Net income			112,424	2.5		107,954	2.2

③ Consolidated statement of retained surplus

Segment	Note No.	Year ending March 31, 2005		Year ending March 31, 2006	
		Amount (thousand yen)		Amount (thousand yen)	
(Capital surplus)					
I. Balance of additional paid-in capital at beginning of year			617,448		383,056
II. Increase in additional paid-in capital					
1 Capital increase by issuance of new shares		8,166	8,166	1,193,189	1,193,189
III. Decrease in additional paid-in capital					
1 Decrease from supplementation of loss		242,448		–	
2 Loss due to exercise of stock options		110	242,558	–	
IV. Capital surplus at end of year			383,056		1,576,246
(Retained earnings)					
I. Retained earnings at beginning of year			-495,726		-140,853
II. Increase in retained earnings					
1 Net income		112,424		107,954	
2 Reversal of capital surplus		242,448	354,872	–	107,954
III. Decrease in retained earnings at end of year			–		–
IV. Balance of retained earnings at end of year			-140,853		-32,899

④ Consolidated cash flow statement

Segment	Note No.	Year ending March 31, 2005	Year ending March 31, 2006
		Amount (thousand yen)	Amount (thousand yen)
I. Cash flow from operations			
1 Net income before income taxes and others		121,798	113,764
2 Depreciation and amortization		149,080	161,201
3 Intangible fixed asset depreciation		125,475	188,750
4 Amortization of new stock issuance expenses		—	9,263
5 Increase in allowance for doubtful accounts		136	—
6 Data communication service cost reserve decrease		-265,966	-28,372
7 Interest income		-258	-8,607
8 Interest expense		1,480	493
9 Loss on disposal of fixed assets		29,368	115
10 Gain (loss) on foreign exchange		—	-15,302
11 Loss on sale of securities		—	12,800
12 Increase/decrease in notes and accounts receivable		-7,321	-115,113
13 Increase/decrease in inventories		219,700	-175,039
14 Increase/decrease in trade payables		-74,593	-15,450
15 Increase/decrease in deferred revenue		482,739	85,217
16 Increase/decrease in accrued consumption tax		81,445	-64,703
17 Other		86,077	9,898
Subtotal		949,161	158,916
18 Net receipts from interest and dividends		258	8,607
19 Net interest paid		-1,480	-1,263
20 Corporate and other income taxes paid		1,673	-11,620
Net cash flow from operations		949,613	154,640

④ Consolidated cash flow statement, cont.

		Year ending March 31, 2005	Year ending March 31, 2006
Segment	Note No.	Amount (thousand yen)	Amount (thousand yen)
II. Cash flow from investing			
1 Purchase of tangible fixed assets		-196,565	-209,193
2 Purchase of intangible fixed assets		-389,939	-984,284
3 Purchase of consolidated subsidiary		—	-388,056
4 Security deposits		—	-5,290
5 Income from loan collection		10,643	—
6 Other		-6,990	-23,161
Net cash flow from investing		-582,852	-1,609,986
III. Cash flow from financing			
1 Increase (decrease) of short-term debt		-80,000	500,000
2 Income from new share issuance		27,003	1,943,546
3 Repayment of long-term debt		-66,000	-54,000
4 New share issuance expense		-14,850	-12,940
5 Treasury stock acquisition expense		-1	-929
6 Installment repayment expense		-43,108	—
7 Other		-110	—
Net cash flow from financing		-177,065	2,375,676
IV. Exchange differences in cash and cash equivalents			
		592	-13,314
V. Net increase/decrease in cash and cash equivalents			
		190,287	907,016
VI. Cash and cash equivalents at beginning of year			
		787,830	978,117
VII. Cash and cash equivalents at end of year			
		978,117	1,885,134

Important items required for drafting consolidated financial statements

Item	Year ending March 31, 2005	Year ending March 31, 2006
1 Items relating to the scope of consolidation	All subsidiaries are consolidated. The consolidated subsidiary concerned is Computer and Communication Technologies, Inc. A subsidiary of the same company, Jouhou Tsushin Gijutsu, Inc. (formerly, "C.C.T., KK") was previously consolidated, but because it was liquidated during this consolidated fiscal year, it is excluded from consolidation.	All subsidiaries are consolidated. The consolidated subsidiaries concerned are Computer and Communication Technologies, Inc. and Arxceo Corporation. As Arxceo Corporation became a subsidiary of the Company on March 3, 2006, through the acquisition of stock, it is included in the scope of consolidation for this consolidated fiscal year.
2 Items relating to the application of the equity method	There is no unconsolidated subsidiary or affiliate applying the equity method.	Same as left.
3 Items relating to the fiscal years of consolidated subsidiaries	The fiscal year closing date and the consolidated fiscal year closing date are identical for the subsidiary.	Arxceo Corporation's fiscal period ends December 31. However, the formal consolidation of current financial statements is carried out on March 31.
4 Items relating to accounting standards (1) Basis and method of valuation of important assets (2) Methods of depreciation of important depreciable assets	<p>(a) Marketable securities Other marketable securities Weighted average method</p> <p>(b) Inventories Weighted average method</p> <p>(a) Tangible fixed assets Mobile terminals Straight line method over two years with zero residual value Other tangible fixed assets Fixed rate method Periods of useful life: Buildings 8 – 15 years Vehicles 2 – 6 years Tools and equip. 5 – 10 years</p> <p>(b) Intangible fixed assets Software for in-house use Straight-line method based on projected term of validity (5 years) Other intangible fixed assets Straight line method Periods of useful life: Trademark 10 years Patent 8 years</p>	<p>(a) Marketable securities Other marketable securities Same as left</p> <p>(b) Inventories Same as left</p> <p>(a) Tangible fixed assets Mobile terminals Same as left</p> <p>Other tangible fixed assets Same as left</p> <p>(b) Intangible fixed assets Software for in-house use Same as left Other intangible fixed assets Same as left</p>

Important items required for drafting consolidated financial statements, cont.

Item	Year ending March 31, 2005	Year ending March 31, 2006
	<p>(c) Deferred assets Expenses for new share issuance Evenly redeemed over 3 years (Supplemental Information) In the past, the full amount of expenses for new share issuance was accounted for at the time of payment; however, in order to plan periodic profit and loss due to the financial burden borne by the cost of new issues as a result of the large number of new issues, the amount paid when new shares are issued was evenly redeemed over 3 years as deferred assets (new share issuance expenses) starting from the current consolidated fiscal year. As a result, ordinary income and income before taxes increased ¥14,850 thousand each, respectively, compared with the accounting method where the full amount is accounted for at the time of payment.</p>	<p>(c) Deferred assets Expenses for new share issuance Evenly redeemed over 3 years _____</p>
(3) Basis and method of calculating important reserves	<p>(a) Allowance for doubtful accounts To provide for losses due to bad debt claims, general claims are treated using the loan loss ratio and specific claims such as potential losses on loans are treated by calculating the amount of unrecoverable debt expected considering the recoverability of each separate claim. (b) Data communication service cost reserve An estimate of communication costs that should be paid over the remaining period of future data communication services is included that corresponds to the net prepaid service sales calculated for the previous consolidated fiscal year. Because the prepaid service sale calculation basis was changed starting from the current consolidated fiscal year, new reserves are not accounted for; however, details are given in the change of accounting method.</p>	<p>(a) Allowance for doubtful accounts Same as left. _____</p>
(4) Method of treatment of important lease transactions	<p>(a) Finance lease transactions other than those accepted as the transfer of property rights of leased articles to debtors are treated using an accounting method based on ordinary lease transaction methods.</p>	<p>(a) Same as left</p>
(5) Important items required for drafting other consolidated financial statements	<p>(a) Accounting method for consumption and other taxes Applying the Tax Excluded Method</p>	<p>(a) Accounting method for consumption and other taxes Same as left</p>

Important items required for drafting consolidated financial statements, cont.

Item	Year ending March 31, 2005	Year ending March 31, 2006
5 Matters relating to valuation of assets and liabilities of consolidated subsidiaries	The assets and liabilities of consolidated subsidiaries are all calculated using the all fair value method.	Same as left
6 Matters relating to amortization of consolidated adjustments	Consolidated adjustments are amortized uniformly over a period of five years.	Due to the acquisition carried out at the end of the current fiscal year, there was no amortization of consolidated adjustments.
7 Matters relating to the disposal of income	Not applicable	Same as left
8 Range of amounts appearing in the consolidated cash flow statements	Cash equivalents in the consolidated cash flow statements include only short-term investments maturing within 3 months after the acquisition date that are highly liquid, easily convertible and bear a minimal risk of price fluctuation.	Same as left

Accounting method revisions

Year ending March 31, 2005	Year ending March 31, 2006
<p data-bbox="124 241 539 275">Change of revenue recognition method</p> <p data-bbox="124 297 778 723">In the past, sales of prepaid data communication services were accounted as one time when delivering product packages that included data communication cards and network charges, however, from the current consolidated fiscal year, the treatment of sales of data communication cards was changed to a delivery basis and the treatment of network charges was changed to a services rendered basis. The change of revenue recognition method concerned was effectuated in order to enable periodic accounting of profit and loss that is more suited to actual conditions when calculating the amount of revenue over the service period because the shift of the actual condition of prepaid service from merchandising to services is made clear and the quantitative and qualitative significance of the amount of prepaid product sales covering the amount of total sales increased.</p> <p data-bbox="124 757 778 992">In the past, estimated network costs that should be paid in the future corresponding to prepaid service sales were accrued as data communication service cost reserves at revenue recognition. However, according to the change of revenue recognition method, accruing data communication service cost reserve was cancelled and the corresponding portion of the reserve to the service rendered in this fiscal year was deducted from the balance of the reserve at the end of the previous fiscal year, as well as from the cost of sales.</p> <p data-bbox="124 1025 778 1216">Due to the change of revenue recognition, net sales and the cost of sales for the current consolidated fiscal year were 482,739 thousand yen and 226,784 thousand yen lower, respectively, compared to calculations effectuated without the change. The result is a 255,955 thousand yen decrease in gross profit, operating income, ordinary income and income before taxes and minority interests.</p>	<p data-bbox="802 241 1433 297">The accounting standard relating to the depreciation of fixed assets</p> <p data-bbox="802 331 1458 566">From this consolidated year, the new accounting standard that relates to accounting for the impairment of fixed assets, "written opinion on the format of the accounting standard which relates to the depreciation of fixed assets" (Corporate Accounting Conference August 9, 2002), is applied. The new guidelines for applying the accounting standard that relates to the depreciation of fixed assets, "Guidelines for Applying Accounting Standards No. 6 October 31, 2003", is applied. This has no influence on profit and loss.</p>

Notes

Related to the consolidated balance sheet

Previous consolidated fiscal year (Ended Mar. 31, 2005)	Current consolidated fiscal year (Ended Mar. 31, 2006)
*1 Shares outstanding for our Group: Common stock 179,204.63 shares	*1 Shares outstanding for our Group: Common stock 224,177.63 shares
*2 Treasury stocks held by the consolidated company: Common stock 17.64 shares	*2 Treasury stocks held by the consolidated company: Common stock 25.18 shares

(Related to the consolidated income statement)

Unit: thousand yen

Previous consolidated fiscal year (Ended Mar. 31, 2005)	Previous fiscal year (Ended Mar. 31, 2006)
*1 The following are the main expenses in sales and general administrative expenses (thousand)	*1 The following are the main expenses in sales and general administrative expenses. (thousand)
Sales promotion expenses ¥54,320	Sales promotion expense ¥98,963
Advertising expenses ¥9,634	Advertising expense ¥22,542
Director salary ¥204,841	Director salary ¥226,431
Employee salary ¥596,029	Employee salary ¥654,815
Contract worker salaries, etc. ¥105,936	Contract worker salaries, etc. ¥161,088
Business consignment fees ¥11,412	Business consignment fees ¥26,621
Statutory welfare expenses ¥62,357	Statutory welfare expenses ¥69,160
Traveling and transportation expenses ¥69,619	Traveling and transportation expenses ¥77,553
Correspondence expenses ¥10,974	Correspondence expenses ¥17,291
Depreciation ¥20,107	Depreciation ¥47,528
Land and residential rental fees ¥69,417	Land and residential rental fees ¥92,788
Advisor fees ¥71,722	Advisor fees ¥62,906
Commissions ¥24,938	Commissions ¥85,417
Total R&D costs included in general administrative and current cost of sales are ¥23,245 thousand.	Total R&D costs included in general administrative and current cost of sales are ¥81,370 thousand.
*2 Prior period adjustments (thousand)	
Deferred previous period depreciation miscalculations ¥653	
*3 Loss on disposal of fixed assets (thousand)	*3 Loss on disposal of fixed assets (thousand)
Tools and equipment ¥644	Vehicles ¥47
Mobile terminal equipment ¥28,660	Tools and equipment ¥68
Other ¥64	

Related to the consolidated cash flow statements

Previous consolidated fiscal year (Ended Mar. 31, 2005)	Current consolidated fiscal year (Ended Mar. 31, 2006)
1 Relation between cash and cash equivalents at end of period and items appearing in the consolidated balance sheet	1 Relation between cash and cash equivalents at end of period and items appearing in the consolidated balance sheet
(thousand)	(thousand)
Cash and deposit accounts	Cash and deposit accounts
¥960,837	¥1,200,408
Marketable securities (Money Market Fund)	Marketable securities (Money Market Fund)
¥17,280	¥684,725
Cash and cash equivalents at the end of period	Cash and cash equivalents at the end of period
¥978,117	¥1,885,134
	2 Breakdown of the assets and liabilities of the company that became a consolidated subsidiary through stock acquisition
	The following is a breakdown of the assets, liabilities and share price at the time of acquisition and consolidation of Arxceo Corporation (hereafter Arxceo), as well as the expense accrued in acquiring Arxceo.
	(million yen)
	Current Assets
	213
	Fixed Assets
	4
	Consolidated adjustments
	459
	Current liabilities
	-4
	Minority interests
	<u>-89</u>
	Acquisition cost of Arxceo stock
	583
	Arxceo's cash and cash
	Equivalents
	<u>194</u>
	Expense accrued in
	acquiring Arxceo
	<u>388</u>

Previous consolidated fiscal year (Ended Mar. 31, 2005)	Current consolidated fiscal year (Ended Mar. 31, 2006)																								
Finance lease transactions other than those accepted as the transfer of property rights of leased article to debtors	Finance lease transactions other than those accepted as the transfer of property rights of leased article to debtors																								
<p>1 Amount of acquisition price of leased article, amount of accumulated depreciation and amount of end of term balance</p> <p style="text-align: right;">(thousands)</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="text-align: center;">Tools and Equipment</th> <th style="text-align: center;">Total</th> </tr> </thead> <tbody> <tr> <td>Acquisition price</td> <td style="text-align: right;">¥80,762</td> <td style="text-align: right;">¥80,762</td> </tr> <tr> <td>Accumulated depreciation</td> <td style="text-align: right;">¥72,792</td> <td style="text-align: right;">¥72,792</td> </tr> <tr> <td>End of term balance</td> <td style="text-align: right;">¥7,970</td> <td style="text-align: right;">¥7,970</td> </tr> </tbody> </table>		Tools and Equipment	Total	Acquisition price	¥80,762	¥80,762	Accumulated depreciation	¥72,792	¥72,792	End of term balance	¥7,970	¥7,970	<p>1 Amount of acquisition price of leased article, amount of accumulated depreciation and amount of end of term balance</p> <p style="text-align: right;">(thousands)</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="text-align: center;">Tools and Equipment</th> <th style="text-align: center;">Total</th> </tr> </thead> <tbody> <tr> <td>Acquisition price</td> <td style="text-align: right;">¥33,681</td> <td style="text-align: right;">¥33,681</td> </tr> <tr> <td>Accumulated depreciation</td> <td style="text-align: right;">¥33,226</td> <td style="text-align: right;">¥33,226</td> </tr> <tr> <td>End of term balance</td> <td style="text-align: right;">¥455</td> <td style="text-align: right;">¥455</td> </tr> </tbody> </table>		Tools and Equipment	Total	Acquisition price	¥33,681	¥33,681	Accumulated depreciation	¥33,226	¥33,226	End of term balance	¥455	¥455
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<p>3 Lease fees due, amount of depreciation and amortization and amount of interest charges</p> <p style="text-align: right;">(thousands)</p> <table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 60%;">Lease fees due</td> <td style="text-align: right;">¥17,112</td> </tr> <tr> <td>Depreciation and amortization</td> <td style="text-align: right;">¥16,082</td> </tr> <tr> <td>Interest charges</td> <td style="text-align: right;">¥481</td> </tr> </tbody> </table>	Lease fees due	¥17,112	Depreciation and amortization	¥16,082	Interest charges	¥481	<p>3 Adjusted decrease in leased assets, lease fees due, amount of depreciation and amortization and amount of interest charges</p> <p style="text-align: right;">(thousands)</p> <table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 60%;">Lease fees due</td> <td style="text-align: right;">¥7,824</td> </tr> <tr> <td>Depreciation and amortization</td> <td style="text-align: right;">¥7,430</td> </tr> <tr> <td>Interest charges</td> <td style="text-align: right;">¥123</td> </tr> </tbody> </table>	Lease fees due	¥7,824	Depreciation and amortization	¥7,430	Interest charges	¥123												
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<p>4 Calculation method for the amount of depreciation and amortization, and for interest charges</p> <p>(1) Calculation method for the amount of depreciation and amortization Straight line depreciation method where "0" is the residual value after a useful life set as the lease period</p> <p>(2) Calculation method for interest paid The amount of interest paid is treated as the difference between the total lease fees and the acquisition price of the leased article with the distribution method per term depending on the interest method.</p>	<p>4 Calculation method for the amount of depreciation and amortization, and for interest charges</p> <p>(1) Calculation method for the amount of depreciation and amortization Same as left</p> <p>(2) Calculation method for interest paid Same as left</p> <p>Impairment Loss There are no impairment losses distributed in the leased assets.</p>																								

Related to marketable securities

Previous consolidated fiscal year (ended Mar. 31, 2005)

Marketable securities

1 Breakdown of the main marketable securities with no quoted price

	Amounts calculated on the consolidated balance sheet (thousand yen)
Other marketable securities	
Marketable securities (Money Market Fund)	17,280

Current consolidated fiscal year (ended Mar. 31, 2006)

Marketable securities

1 Breakdown of the main marketable securities with no quoted price

	Amounts calculated on the consolidated balance sheet (thousand yen)
Other marketable securities	
Marketable securities (Money Market Fund)	684,725

(Related to derivatives trading)

Previous consolidated fiscal year (Apr 1, 2004 to Mar 31, 2005)

Derivatives trading was not executed, therefore, there are no relevant items.

Current consolidated fiscal year (Apr 1, 2005 to Mar 31, 2006)

Derivatives trading was not executed, therefore, there are no relevant items.

Relating to the tax efficient accounting

Previous consolidated fiscal year (Ended Mar 31, 2005)	Current consolidated fiscal year (Ended Mar 31, 2006)																																																		
<p>1 Breakdown of key factors contributing to the incidence of deferred tax assets</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Deferred tax assets</th> <th style="text-align: right;">(thousand yen)</th> </tr> </thead> <tbody> <tr> <td>Net operating loss carried forward</td> <td style="text-align: right;">1,464,230</td> </tr> <tr> <td>Depreciable assets</td> <td style="text-align: right;">11,080</td> </tr> <tr> <td>Software amortization</td> <td style="text-align: right;">139</td> </tr> <tr> <td>Deferred revenue</td> <td style="text-align: right;">196,427</td> </tr> <tr> <td>Unrealized income from fixed assets</td> <td style="text-align: right;">15,587</td> </tr> <tr> <td>Data communication service cost reserves</td> <td style="text-align: right;">11,545</td> </tr> <tr> <td>Stock taking valuation allowance</td> <td style="text-align: right;">6,960</td> </tr> <tr> <td>Business tax payable</td> <td style="text-align: right;">4,524</td> </tr> <tr> <td>Others</td> <td style="text-align: right;">45,150</td> </tr> <tr> <td style="border-top: 1px solid black;">Deferred Tax Assets (Subtotal)</td> <td style="text-align: right; border-top: 1px solid black;">1,755,641</td> </tr> <tr> <td>Valuation Allowance</td> <td style="text-align: right;">-1,755,641</td> </tr> <tr> <td style="border-top: 1px solid black; border-bottom: 1px solid black;">Deferred Tax Assets (Total)</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">—</td> </tr> </tbody> </table>	Deferred tax assets	(thousand yen)	Net operating loss carried forward	1,464,230	Depreciable assets	11,080	Software amortization	139	Deferred revenue	196,427	Unrealized income from fixed assets	15,587	Data communication service cost reserves	11,545	Stock taking valuation allowance	6,960	Business tax payable	4,524	Others	45,150	Deferred Tax Assets (Subtotal)	1,755,641	Valuation Allowance	-1,755,641	Deferred Tax Assets (Total)	—	<p>1 Breakdown of key factors contributing to the incidence of deferred tax assets</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Deferred tax assets</th> <th style="text-align: right;">(thousand yen)</th> </tr> </thead> <tbody> <tr> <td>Net operating loss carried forward</td> <td style="text-align: right;">822,280</td> </tr> <tr> <td>Depreciable assets</td> <td style="text-align: right;">13,100</td> </tr> <tr> <td>Software amortization</td> <td style="text-align: right;">41</td> </tr> <tr> <td>Deferred revenue</td> <td style="text-align: right;">230,558</td> </tr> <tr> <td>Unrealized income from fixed assets</td> <td style="text-align: right;">41,403</td> </tr> <tr> <td>Stock taking valuation allowance</td> <td style="text-align: right;">3,447</td> </tr> <tr> <td>Business tax payable</td> <td style="text-align: right;">5,390</td> </tr> <tr> <td>Others</td> <td style="text-align: right;">46,799</td> </tr> <tr> <td style="border-top: 1px solid black;">Deferred Tax Assets (Subtotal)</td> <td style="text-align: right; border-top: 1px solid black;">1,163,018</td> </tr> <tr> <td>Valuation Allowance</td> <td style="text-align: right;">-1,163,018</td> </tr> <tr> <td style="border-top: 1px solid black; border-bottom: 1px solid black;">Deferred Tax Assets (Total)</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">—</td> </tr> </tbody> </table>	Deferred tax assets	(thousand yen)	Net operating loss carried forward	822,280	Depreciable assets	13,100	Software amortization	41	Deferred revenue	230,558	Unrealized income from fixed assets	41,403	Stock taking valuation allowance	3,447	Business tax payable	5,390	Others	46,799	Deferred Tax Assets (Subtotal)	1,163,018	Valuation Allowance	-1,163,018	Deferred Tax Assets (Total)	—
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Segment information

[Segment information per business line]

Over both this consolidated fiscal year (Apr 1, 2005 to Mar 31, 2006) and the previous consolidated fiscal year (Apr 1, 2004 to Mar 31, 2005), our Group has been engaged in a single business, mobile communications, and there are no other businesses. Thus business segment information is not available.

[Segment information per location]

Previous consolidated fiscal year (Ended Mar 31, 2005)

	Japan (thousand yen)	USA (thousand yen)	Total (thousand yen)	Deletion or entire company (thousand yen)	Consolidated (thousand yen)
I. Net sales and operating profit and loss					
Net sales					
(1) Sales to external customers	4,559,431	—	4,559,431	—	4,559,431
(2) Internal sales or transfer amount between segments	—	454,281	454,281	(454,281)	—
Total	4,559,431	454,281	5,013,713	(454,281)	4,559,431
Operating expenses	4,352,883	447,379	4,800,263	(422,013)	4,378,249
Operating profit	206,547	6,902	213,449	(32,268)	181,181
II. Assets	2,821,533	141,557	2,963,091	(170,878)	2,792,212

(Note) Countries or regions are classified by geographic proximity to each other.

Current consolidated fiscal year (Ended Mar 31, 2006)

	Japan (thousand yen)	USA (thousand yen)	Total (thousand yen)	Deletion or entire company (thousand yen)	Consolidated (thousand yen)
I. Net sales and operating profit and loss					
Net sales					
(1) Sales to external customers	4,943,987	—	4,943,987	—	4,943,987
(2) Internal sales or transfer amount between segments	—	708,968	708,968	(708,968)	—
Total	4,943,987	708,968	5,652,955	(708,968)	4,943,987
Operating expenses	4,734,900	678,826	5,413,727	(643,690)	4,770,036
Operating profit	209,087	30,141	239,228	(65,277)	173,950
II. Assets	5,355,098	664,281	6,019,380	(654,883)	5,364,497

(Note) Countries or regions are classified by geographic proximity to each other.

[Overseas sales]

Previous consolidated fiscal year (Apr 1, 2004 to Mar 31, 2005)

Overseas sales are omitted because they represented less than 10% of total consolidated sales for the previous fiscal year.

Current consolidated fiscal year (Apr 1, 2005 to Mar 31, 2006)

Overseas sales are omitted because they represent less than 10% of total consolidated sales for the current fiscal year.

Transactions by Interested Parties
Previous Consolidated Fiscal Year (ending March 31, 2005)
Officers, individual principal stockholders, etc.

(Unit: thousand yen)

Attribute	Name	Address	Assets or Capital	Business Description or Occupation	Voting Rights	Related Matters		Transaction Description	※1 Transaction Amount	Subject	※1 End of Year Balance
						Officer Post	Business Relationship				
Officers and their close relatives	Frank Seiji Sanda	—	—	Representative Director and CEO	—	—	—	Housing expenses for which Company is responsible ※4	3,510	—	—
	Masataka Fujisawa	—	—	Senior Managing Director	Direct 0.20%	—	—	Housing expenses for which Company is responsible ※4	814	—	—
	Yukio Kosuda	—	—	Managing Director	Direct 0.09%	—	—	Housing expenses for which Company is responsible ※4	2,025	—	—
	Naohisa Fukuda	—	—	Company Director	Direct 0.01%	—	—	Housing expenses for which Company is responsible ※4	2,961	—	—
Officers and their close relatives who possess a majority of voting rights (including subsidiaries of subsidiaries)	L.T.S., KK ※3	Chiyoda Ward, Tokyo	10,000	Management Consulting Services	—	Concurrent posts: 1	Management Leadership for the Company	Expense payment ※5	516	—	—

- (Notes) ※1. Consumption tax for transaction amount and end of year balance is not included in the amounts listed above.
※2. Transaction terms and determined policies for transaction terms
Transaction conditions such as pricing are determined by identical conditions to those given to interested parties with no relation to the Company.
※3. Company representative director and CEO Frank Seiji Sanda possesses a majority of voting rights in L.T.S., KK.
※4. Transactions regarding housing expenses for which the Company is responsible were cancelled starting January 2005, with the full amount self-paid thereafter.
※5. The expense payment transaction for L.T.S., KK was cancelled as of August 31, 2004.

Transactions by Interested Parties
Current Consolidated Fiscal Year (ending March 31, 2006)

Not applicable to this consolidated fiscal year

Data per share

Item	Previous consolidated fiscal year (Ended Mar 31, 2005)	Current consolidated fiscal year (Ended Mar 31, 2006)
Net assets per share	¥9,935.04	¥16,657.01
Net income per share	¥629.98	¥495.40
Net income per share on a fully diluted basis	—	¥474.61

(Note) 1 Net income per share on a fully diluted basis

For the previous consolidated fiscal year, there is a balance of residual securities, however, shares issued by this company were unlisted at the end of the previous consolidated fiscal year. Therefore, no entry is made because it is impossible to know the average stock price during the period.

2 Basis for calculating net income per share for the current consolidated fiscal year

Item	Previous consolidated fiscal year (Ended Mar 31, 2005)	Current consolidated fiscal year (Ended Mar 31, 2006)
Net income as shown on the Income Statement (thousand yen)	112,424	107,954
Net income from common stock (thousand yen)	112,424	107,954
Amount not appropriated to ordinary shareholders (thousand yen)	—	—
Weighted average of common stock during this term (shares)	178,454.74	217,910.86

Important post-balance sheet events

Previous consolidated fiscal year (Ended Mar 31, 2005)	Current consolidated fiscal year (Ended Mar.31, 2006)																								
<p>1 Our company received approval for listing by the Osaka Securities Exchange on March 18, 2005 and was listed on their Hercules market on April 21, 2005. Upon this listing, the following new shares were issued.</p> <p>(New stock issuance by public offering) The following new stocks were issued by public offering as per a resolution at the Board of Directors' Meetings held on March 18 and April 1, 2005.</p> <p>(1) Type and number of shares</p> <table border="0"> <tr> <td>Common stock</td> <td>34,000 shares</td> </tr> <tr> <td>Issue price per share</td> <td>¥34,000</td> </tr> <tr> <td>Capital incorporation from issue prices per share</td> <td>¥17,000</td> </tr> <tr> <td>Total issue price</td> <td>¥1,156,000 thousand</td> </tr> </table> <p>(2) Issuing schedule</p> <table border="0"> <tr> <td>Offering period</td> <td>April 14 to 19, 2005</td> </tr> <tr> <td>Payment date</td> <td>April 20, 2005</td> </tr> </table> <p>(3) Dividend rights granted to the stock April 1, 2005</p> <p>(4) Use of funds Capital investments in equipment and software development, etc.</p> <p>(New stock issued by third party allocation) Subsequent to a resolution adopted at Board of Directors' Meetings held on March 18 and April 1, 2005, as per the following, a third party allocation capital increase was effectuated relating to the sale of this company's stock by over allotment (sale of 5,000 shares (maximum limit) of our company's common stock borrowed from this company's stockholders by Daiwa Securities SMBC).</p> <p>(1) Type and number of issued shares</p> <table border="0"> <tr> <td>Common stock</td> <td>5,000 shares</td> </tr> <tr> <td>Issue price per share</td> <td>¥34,000</td> </tr> <tr> <td>Capital incorporation from issue price per share</td> <td>¥17,000</td> </tr> <tr> <td>Total issue price</td> <td>¥170,000 thousand</td> </tr> </table> <p>(2) Issuing schedule</p> <table border="0"> <tr> <td>Offering period</td> <td>April 21 to May 19, 2005</td> </tr> <tr> <td>Payment date</td> <td>May 23, 2005</td> </tr> </table> <p>(3) Dividend rights granted to the stock April 1, 2005</p> <p>(4) Allocated to Daiwa Securities SMBC</p> <p>(5) Use of funds Operating capital</p>	Common stock	34,000 shares	Issue price per share	¥34,000	Capital incorporation from issue prices per share	¥17,000	Total issue price	¥1,156,000 thousand	Offering period	April 14 to 19, 2005	Payment date	April 20, 2005	Common stock	5,000 shares	Issue price per share	¥34,000	Capital incorporation from issue price per share	¥17,000	Total issue price	¥170,000 thousand	Offering period	April 21 to May 19, 2005	Payment date	May 23, 2005	<p>1 Establishment of a subsidiary On April 3, 2006, our Company established a US subsidiary, Communications Security and Compliance Technologies, Inc. (Headquarters: Atlanta, Georgia).</p>
Common stock	34,000 shares																								
Issue price per share	¥34,000																								
Capital incorporation from issue prices per share	¥17,000																								
Total issue price	¥1,156,000 thousand																								
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Total issue price	¥170,000 thousand																								
Offering period	April 21 to May 19, 2005																								
Payment date	May 23, 2005																								

Previous consolidated fiscal year (Ended Mar 31, 2005)	Current consolidated fiscal year (Ended Mar.31, 2006)
<p>2. Exercise of stock options The following stock options were exercised after the fiscal year.</p> <p>1. Portion exercised on April 25, 2005</p> <p>(1) Type and number of shares issued by exercising stock options as well as the issue price per share Common stock: 252 shares ¥16,667</p> <p>(2) Total issue price of shares issued by exercising stock options ¥4,200 thousand</p> <p>(3) Capital incorporation of shares issued by exercising stock options ¥4,200 thousand</p> <p>(4) Dividend rights granted to the stock April 1, 2005</p> <p>2. Portion exercised on April 26, 2005</p> <p>(1) Type and number of shares issued by exercising stock options as well as the issue price per share Common stock 45 shares ¥16,667 Common stock 10 shares ¥26,667</p> <p>(2) Total issue price of shares issued by exercising stock options ¥1,016 thousand</p> <p>(3) Capital incorporation of shares issued by exercising stock options ¥883 thousand</p> <p>(4) Dividend rights granted to the stock April 1, 2005</p> <p>3. Portion exercised on April 27, 2005</p> <p>(1) Type and number of shares issued by exercising stock options as well as the issue price per share Common stock 27 shares ¥16,667</p> <p>(2) Total issue price of shares issued by exercising stock options ¥450 thousand</p> <p>(3) Capital incorporation of shares issued by exercising stock options ¥450 thousand</p> <p>(4) Dividend rights granted to the stock April 1, 2005</p> <p>4. Portion exercised on April 28, 2005</p> <p>(1) Type and number of shares issued by exercising stock options as well as the issue price per share Common stock 39 shares ¥16,667 Common stock 17 shares ¥26,667</p> <p>(2) Total issue price of shares issued by exercising stock options ¥1,103 thousand</p> <p>(3) Capital incorporation of shares issued by exercising stock options ¥876 thousand</p> <p>(4) Dividend rights granted to the stock April 1, 2005</p>	

Period of: March 2006**Financial Statement Summary**

May 25, 2006

Company Name: Japan Communications Inc. **Listed Securities Exchange:** Osaka Securities Exchange, Hercules**Stock Code:** 9424**Location of Head Office:** Tokyo(URL <http://www.j-com.co.jp>)**Representative:** Frank Seiji Sanda, Representative Director and CEO**Direct Inquiries to:** Naohisa Fukuda, Director and CFO

Tel: (03) 5767-9100 (Switchboard)

Board of Directors meeting convened: May 25, 2006**Interim dividend system:** Yes**Date for payment of dividends:** TBA**Date of General Shareholders meeting:** June 29, 2006**Unit stock system:** No

1. Results (April 1, 2005 to March 31, 2006)

(1) Results of operations (Amounts rounded down, percentages are rounded).

	Net Sales		Operating Profit		Ordinary Income	
	million yen	%	million yen	%	million yen	%
Year ended Mar 2006	4,943	8.4	209	1.1	152	- 16.8
Year ended Mar 2005	4,559	-18.4	206	—	183	—

	Net Income		Diluted Net Income per Share	Net Income to Shareholders' Equity	Ratio of Total Assets to Ordinary Income	Ratio of Net Sales to Ordinary Income	
	million yen	%					
Year ended Mar 2006	146	3.1	672.53	644.31	5.3	3.7	3.1
Year ended Mar 2005	142	—	796.90	—	8.7	6.8	4.0

(Notes)

- ① Average shareholdings: Year ended March 2006: 217,910 shares Year ended March 2005: 178,454 shares
 ② Changes in accounting method: None
 ③ The percentages displayed indicate any gains/losses compared with the previous year in terms of Net Sales, Operating Profit, Ordinary Income and Net Income.

(2) Dividends

	Annual dividend per share			Total Dividend Paid (Annual)	Payout Ratio	Shareholders' Equity Yield
	yen	Interim	Period End			
Year ending March 2006	0.00	0.00	0.00	—	—	—
Year ending March 2005	0.00	0.00	0.00	—	—	—

(3) Financial status

	Total Assets	Shareholder's Equity	Shareholders' Equity Ratio	Shareholders' Equity per Share
	million yen	million yen	%	yen
Year ended Mar 2006	5,355	3,798	70.9	16,945.18
Year ended Mar 2005	2,821	1,717	60.9	9,583.27

(Note)

- ① Outstanding shares (figures): period: March 2006 224,177 shares / period: March 2005 179,204 shares
 ② Treasury stocks (figures): period: March 2006 25 stocks / period: March 2005 17 stocks

2. Earnings forecast for the period ending March 2007 (April 1, 2006 to March 31, 2007)

Although our Group's Research and Development division is based in the US, and thus operates as a separate company, it is included in consolidated management. Therefore, our Group reports forecasts for consolidated earnings only.

1 Financial statements

(1) Financial statements

① Balance sheet

Segment	Note No.	Year ending March 31, 2005		Year ending March 31, 2006	
		Amount (thousand yen)	(%)	Amount (thousand yen)	(%)
(Assets)					
I. Current assets					
1 Cash and equivalents		951,341		887,526	
2 Accounts receivable-trade		561,747		677,168	
3 Marketable securities		–		592,677	
4 Merchandise		38,532		38,889	
5 Inventory		115,297		272,002	
6 Prepaid expense		22,114		20,321	
7 Accounts receivable – others		18,315		23,578	
8 Advance payments		–		84,335	
9 Accounts receivable – affiliated companies		428		7,972	
10 Other		366		14,825	
Allowance for doubtful accounts		-1,000		-1,000	
Total current assets		1,707,143	60.5	2,618,297	48.9
II. Fixed assets					
1 Tangible fixed assets					
(1) Buildings		22,856		29,529	
Accumulated depreciation		5,459	17,396	9,214	20,314
(2) Vehicles		5,683		8,544	
Accumulated depreciation		4,563	1,120	5,500	3,043
(3) Tools, furniture & equipment		174,374		225,614	
Accumulated depreciation		88,676	85,697	123,731	101,883
(4) Mobile devices		177,526		149,113	
Accumulated depreciation		77,350	100,176	81,578	67,534
Total tangible fixed assets		204,390	7.3	192,776	3.6
2 Intangible fixed assets					
(1) Trademarks		3,195		3,096	
(2) Patents		423		352	
(3) Telephone subscriber rights		1,294		1,294	
(4) Software		729,428		622,282	
(5) Software in progress		–		947,634	
Total intangible fixed assets		734,341	26.0	1,574,660	29.4
3 Investments and other assets					
(1) Stock of affiliated companies		–		583,050	
(2) Long-term prepaid expenses		9,401		32,562	
(3) Stocks of affiliated companies long-term loans		104,720		281,928	
(4) Security deposits		46,687		53,296	
(5) Claim in bankruptcy, etc.		19		19	
Allowance for doubtful accounts		-19		-19	
Total Investments and other assets		160,808	5.7	950,837	17.8
Total fixed assets		1,099,540	39.0	2,718,274	50.8
III. Deferred assets					
1 New share issuing expense		14,850		18,526	
Total deferred assets		14,850	0.5	18,526	0.3
Total assets		2,821,533	100.0	5,355,098	100.0

① Balance sheet, cont.

Segment	Note No.	Year ending March 31, 2005		Year ending March 31, 2006	
		Amount (thousand yen)	(%)	Amount (thousand yen)	(%)
(Liabilities)					
I. Current liabilities					
1 Accounts payable		280,165		265,462	
2 Short-term debt		–		500,000	
3 Current portion of long-term debt		54,000		–	
4 Accounts payable – other		158,975		191,158	
5 Consumption tax payable		64,703		–	
6 Corporate and other taxes payable		16,927		13,520	
7 Deferred revenue		482,739		567,957	
8 Deposits received		16,457		17,088	
9 Share purchase rights		1,825		1,419	
10 Data communication service cost reserves		28,372		–	
11 Other		168		189	
Total current liabilities		1,104,334	39.1	1,556,795	29.1
II. Fixed liabilities		–		–	–
Total liabilities		1,104,334	39.1	1,556,795	29.1
(Shareholder's Equity)					
I. Capital stock	※1	1,518,947	53.8	2,269,710	42.4
II. Additional paid-in capital		383,056	13.6	1,576,246	29.4
III. Retained earnings					
1 Undisposed loss at end of year		-183,993		-37,439	
Total retained earnings		-183,998	-6.5	-37,439	-0.7
IV. Valuation balance of other marketable securities		–	–	-8,471	-0.2
V. Treasury stock	※2	-811	-0.0	-1,741	-0.0
Total shareholders' equity		1,717,199	60.9	3,798,303	70.9
Total liabilities and shareholders' equity		2,821,533	100.0	5,355,098	100.0

② Income statement

Segment	Note No.	Year ending March 31, 2005		Year ending March 31, 2006	
		Amount (thousand yen)	(%)	Amount (thousand yen)	(%)
I. Net sales					
1 Revenue		4,559,431	100.0	4,943,987	100.0
II. Cost of sales					
1 Cost of sales	※1	3,097,395	67.9	3,159,115	63.9
Gross profit		1,462,035	32.1	1,784,872	36.1
III. Selling, general and administrative expenses	※2	1,255,289	27.6	1,575,785	31.9
Operating profit		206,746	4.5	209,087	4.2
IV. Non-operating income					
1 Interest income	※1	1,512		12,872	
2 Foreign exchange gain		2,616		22,168	
3 Miscellaneous income		1,261	5,390	370	35,412
0.1			0.1		0.7
V. Non-operating expenses					
1 Interest expense and discounts		1,480		493	
2 Expenses related to IPO		27,000		69,369	
3 New share expense amortization		—		9,263	
4 Loss on sale of securities		—		12,800	
5 Other		503	28,983	161	92,088
0.6			0.6		1.9
Ordinary income			183,152		152,410
3.1			4.0		3.1
VI. Extraordinary loss					
1 Loss due to prior period adjustment	※3	653		—	
2 Loss on disposal of fixed assets	※4	29,114		47	
3 Loss on cancellation of lease contracts		1,851	31,619	—	47
0.7			0.7		0.0
Net income before taxes			151,533		152,363
3.3			3.3		3.1
Corporate, resident and business taxes			9,321		5,810
0.2			0.2		0.1
Net income this year			142,211		146,553
3.1			3.1		3.0
Balance brought forward (—)			-326,205		-183,993
Undisposed loss at end of year (—)			-183,993		-37,439

Detailed statement of business costs

Segment	Note No.	Year ending March 31, 2005			Year ending March 31, 2006		
		Amount (thousand yen)		(%)	Amount (thousand yen)		(%)
I. Inventory at beginning of term		372,852			173,250		
II. Cost of procurement of merchandise for term		187,256			621,736		
III. Allowance for other transfers	※1	122,353			80,563		
IV. Inventory at end of term		173,250	264,505	8.5	310,386	404,036	12.8
V. Communication line costs, etc.			2,003,497	64.7		1,509,183	47.8
VI. BMDS cost			290,879	9.4		669,766	21.2
VII. Other expenses	※2		538,513	17.4		576,128	18.2
Total			3,097,395	100.0		3,159,115	100.0

(Note) ※1 The following is a breakdown of "Allowance for other transfers": (thousand yen)

Segment	Year ending March 31, 2005	Year ending March 31, 2006
Fixed asset transfers	116,166	73,289
Transfers for consumable goods, etc.	6,186	7,273
Total	122,353	80,563

(Note) ※2 The following is a breakdown of "Other expenses": (thousand yen)

Segment	Year ending March 31, 2005	Year ending March 31, 2006
Depreciation	143,514	173,938
System management costs	157,060	163,256
Depreciation of mobile terminal equipment	92,660	85,874
Business consignment fees	6,717	1,702
Outsourcing consignment fees	21,112	31,151
Communication service cost	2,174	-
Lease payments	15,378	8,512
Other	99,893	111,692
Total	538,513	576,128

③ Proposed disposal of loss statement
 Disposal of loss statement

		Year ending March 31, 2005		Year ending March 31, 2006	
Item	Note No.	Amount (thousand yen)		Amount (thousand yen)	
(Disposal of loss)					
I Undisposed loss at end of fiscal year			183,993		37,439
II Deficit to be carried forward			183,993		37,439

Important Accounting Policies

Item	Year ending March 31, 2005	Year ending March 31, 2006
1 Basis and method of valuation of marketable securities	(1) Subsidiary and Affiliated companies Weighted average method (2) Other marketable securities With no available quoted price Weighted average method	(1) Subsidiary and Affiliated companies Same as left (2) Other marketable securities With no available quoted price Same as left
2 Basis and method of valuation of inventory	Weighted average method	Same as left
3 Methods of depreciation of important depreciable assets	(1) Tangible fixed assets Mobile terminals Straight line method over two years with zero residual value Other tangible fixed assets Fixed rate method Periods of useful life: Buildings 8 – 15 years Vehicles 2 – 6 years Tools and equip. 5 – 10 years (2) Intangible fixed assets Software for in-house use Straight-line method based on projected term of validity (5 years) Other intangible fixed assets Straight line method Periods of useful life: Trademark rights 10 years Patent rights 8 years	(1) Tangible fixed assets Mobile terminals Same as left Other tangible fixed assets Same as left (2) Intangible fixed assets Software for in-house use Same as left Other intangible fixed assets Same as left

Important Accounting Policies cont.

Item	Year ending March 31, 2005	Year ending March 31, 2006
<p>4 Disposal method of deferred assets</p>	<p>Expenses for new share issuance Redeemed uniformly over 3 years (Supplemental Information) In the past, the full amount of expenses for new share issuance was accounted for at the time of payment; however, in order to plan periodic profit and loss due to the financial burden borne by the cost of new issues as a result of the large number of new issues, the amount paid when new shares are issued was evenly redeemed over 3 years as deferred assets (new share issuance expenses) starting from the current fiscal year. As a result, ordinary income and income before taxes increased ¥14,850 thousand each, respectively, compared with the accounting method where the full amount is accounted for at the time of payment.</p>	<p>Expenses for new share issuance Redeemed uniformly over 3 years</p> <hr/>
<p>5 Basis and method of calculating reserves</p>	<p>(1) Allowance for doubtful accounts To provide for losses due to bad debt claims, general claims are treated using the loan loss ratio. Specific claims, such as potential losses on loans, are treated by calculating the amount of unrecoverable debt expected and considering the recoverability of each separate claim. (2) Data communication service cost reserve An estimate of communication costs that should be paid over the remaining period of future data communication services is included that corresponds to the net prepaid service sales calculated for the previous fiscal year. Because the prepaid service sale calculation basis was changed starting from the current fiscal year, new reserves are not accounted for; however, details are given in the change of accounting method.</p>	<p>(1) Allowance for doubtful accounts Same as left</p> <hr/>
<p>6 Method of treatment of lease transactions</p>	<p>Finance lease transactions other than those accepted as the transfer of property rights of leased articles to debtors are treated using an accounting method based on ordinary lease transaction methods.</p>	<p>Same as left</p>
<p>7 Important items required for drafting other financial statements</p>	<p>(1) Accounting method for consumption tax and local consumption tax Applying the Tax Excluded Method</p>	<p>(1) Accounting method for consumption tax and local consumption tax Same as left</p>

Accounting method revisions

Year ending March 31, 2005	Year ending March 31, 2006
<p>Change of revenue recognition method</p> <p>In the past, sales of prepaid data communication services were accounted as one time when delivering product packages that included data communication cards and network charges, however, from the current fiscal year, the treatment of sales of data communication cards was changed to a delivery basis and the treatment of network charges was changed to a services rendered basis. The change of revenue recognition method concerned was effectuated in order to enable periodic accounting of profit and loss that is more suited to actual conditions when calculating the amount of revenue over the service period because the shift of the actual condition of prepaid service from merchandising to services is made clear and the quantitative and qualitative significance of the amount of prepaid product sales covering the amount of total sales increased.</p> <p>In the past, estimated network costs that should be paid in the future corresponding to prepaid service sales were accrued as data communication service cost reserves at revenue recognition. However, according to the change of revenue recognition method, accruing data communication service cost reserve was cancelled and the corresponding portion of the reserve to the service rendered in this fiscal year was deducted from the balance of the reserve at the end of the previous fiscal year, as well as from the cost of sales.</p> <p>Due to the change of revenue recognition, net sales and the cost of sales for the current fiscal year were 482,739 thousand yen and 226,784 thousand yen lower, respectively, compared to calculations effectuated without the change. The result is a 255,955 thousand yen decrease in gross profit, operating income, ordinary income and income before taxes and minority interests.</p>	<p>The accounting standard relating to the depreciation of fixed assets</p> <p>From this consolidated year, the new accounting standard that relates to accounting for the impairment of fixed assets, "written opinion on the format of the accounting standard which relates to the depreciation of fixed assets" (Corporate Accounting Conference August 9, 2002), is applied. The new guidelines for applying the accounting standard that relates to the depreciation of fixed assets, "Guidelines for Applying Accounting Standards No. 6 October 31, 2003", is applied. This has no influence on profit and loss.</p>

Notes

(Related to the balance sheet)

Previous fiscal year (Ended Mar. 31, 2005)	Current fiscal year (Ended Mar. 31, 2006)
<p>*1 Authorized shares: common stock 360,000 shares Issued shares: common stock 179,204.63 shares In accordance with the resolution of the extraordinary general shareholders meeting of March 20, 2003, 3,251,987 thousand yen of capital (reduced without compensation) and 3,751,987 thousand yen of paid in capital were allocated to indemnify losses.</p> <p>*2 Treasury stocks Total treasury stock holdings of our company: common stock 17.64 shares</p> <p>*3 Capital deficits: 184,804 thousand yen</p>	<p>*1 Authorized shares: common stock 870,000 shares Issued shares: common stock 224,177.63 shares In accordance with the resolution of the extraordinary general shareholders meeting of March 20, 2003, 3,251,987 thousand yen of capital (reduced without compensation) and 3,751,987 thousand yen of paid in capital were allocated to indemnify losses.</p> <p>*2 Treasury stocks Total treasury stock holdings of our company: common stock 25.18 shares</p> <p>*3 Capital deficits: 39,181 thousand yen</p>

(Related to the income statement)

Unit: thousand yen

Previous fiscal year (Ended Mar. 31, 2005)	Current fiscal year (Ended Mar. 31, 2006)																																																																										
<p>*1 The following are important transactions with our Company's affiliates</p> <p style="text-align: right;">(thousands)</p> <table> <tr> <td>Cost of Sales</td> <td></td> </tr> <tr> <td> System Management costs</td> <td style="text-align: right;">¥157,060</td> </tr> <tr> <td>Non-operating income</td> <td></td> </tr> <tr> <td> Interest and dividends received</td> <td style="text-align: right;">¥1,430</td> </tr> </table> <p>*2 Sales costs accounted for 55% of sales and general administrative expenses, with general administration costs accounting for the remaining 45%. The following is a breakdown of the major items and expenditures of sales and general administrative expenses.</p> <p style="text-align: right;">(thousands)</p> <table> <tr> <td>Sales promotion expenses</td> <td style="text-align: right;">¥54,320</td> </tr> <tr> <td>Advertising expenses</td> <td style="text-align: right;">¥9,634</td> </tr> <tr> <td>Director salary</td> <td style="text-align: right;">¥204,841</td> </tr> <tr> <td>Employee salary</td> <td style="text-align: right;">¥524,544</td> </tr> <tr> <td>Statutory welfare expenses</td> <td style="text-align: right;">¥62,357</td> </tr> <tr> <td>Contract worker salaries, etc.</td> <td style="text-align: right;">¥105,936</td> </tr> <tr> <td>Business consignment fees</td> <td style="text-align: right;">¥11,412</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">¥12,069</td> </tr> <tr> <td>Land and residential rental fees</td> <td style="text-align: right;">¥58,912</td> </tr> <tr> <td>Advisor fees</td> <td style="text-align: right;">¥44,428</td> </tr> <tr> <td>Commissions</td> <td style="text-align: right;">¥24,793</td> </tr> <tr> <td>Traveling and transportation expenses</td> <td style="text-align: right;">¥56,886</td> </tr> </table> <p>Total R&D costs included in general administrative and current cost of sales are ¥23,245 thousand.</p> <p>*3 Prior period adjustments</p> <table> <tr> <td> Deferred previous period depreciation miscalculations</td> <td style="text-align: right;">¥653</td> </tr> </table> <p>*4 Loss on disposal of fixed assets</p> <table> <tr> <td> Tools, furniture and equipment</td> <td style="text-align: right;">¥390</td> </tr> <tr> <td> Mobile terminal equipment</td> <td style="text-align: right;">¥28,660</td> </tr> <tr> <td> Other</td> <td style="text-align: right;">¥64</td> </tr> </table>	Cost of Sales		System Management costs	¥157,060	Non-operating income		Interest and dividends received	¥1,430	Sales promotion expenses	¥54,320	Advertising expenses	¥9,634	Director salary	¥204,841	Employee salary	¥524,544	Statutory welfare expenses	¥62,357	Contract worker salaries, etc.	¥105,936	Business consignment fees	¥11,412	Depreciation	¥12,069	Land and residential rental fees	¥58,912	Advisor fees	¥44,428	Commissions	¥24,793	Traveling and transportation expenses	¥56,886	Deferred previous period depreciation miscalculations	¥653	Tools, furniture and equipment	¥390	Mobile terminal equipment	¥28,660	Other	¥64	<p>*1 The following are important transactions with our Company's affiliates</p> <p style="text-align: right;">(thousands)</p> <table> <tr> <td>Cost of Sales</td> <td></td> </tr> <tr> <td> System Management costs</td> <td style="text-align: right;">¥163,256</td> </tr> <tr> <td>Non-operating income</td> <td></td> </tr> <tr> <td> Interest and dividends received</td> <td style="text-align: right;">¥7,320</td> </tr> </table> <p>*2 Sales costs accounted for 57% of sales and general administrative expenses, with general administration costs accounting for the remaining 43%. The following is a breakdown of the major items and expenditures of sales and general administrative expenses.</p> <p style="text-align: right;">(thousands)</p> <table> <tr> <td>Sales promotion expense</td> <td style="text-align: right;">¥98,953</td> </tr> <tr> <td>Advertising expense</td> <td style="text-align: right;">¥22,100</td> </tr> <tr> <td>Director salary</td> <td style="text-align: right;">¥226,431</td> </tr> <tr> <td>Employee salary</td> <td style="text-align: right;">¥559,946</td> </tr> <tr> <td>Statutory welfare expenses</td> <td style="text-align: right;">¥67,839</td> </tr> <tr> <td>Contract worker salaries, etc.</td> <td style="text-align: right;">¥161,088</td> </tr> <tr> <td>Business consignment fees</td> <td style="text-align: right;">¥26,621</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">¥42,867</td> </tr> <tr> <td>Land and residential rental fees</td> <td style="text-align: right;">¥79,505</td> </tr> <tr> <td>Advisor fees</td> <td style="text-align: right;">¥59,241</td> </tr> <tr> <td>Commissions</td> <td style="text-align: right;">¥71,801</td> </tr> <tr> <td>Traveling and transportation expenses</td> <td style="text-align: right;">¥64,881</td> </tr> </table> <p>Total R&D costs included in general administrative and current cost of sales are ¥81,370 thousand.</p> <p style="text-align: center;">_____</p> <p>*4 Loss on disposal of fixed assets</p> <table> <tr> <td> Vehicles</td> <td style="text-align: right;">¥47</td> </tr> </table>	Cost of Sales		System Management costs	¥163,256	Non-operating income		Interest and dividends received	¥7,320	Sales promotion expense	¥98,953	Advertising expense	¥22,100	Director salary	¥226,431	Employee salary	¥559,946	Statutory welfare expenses	¥67,839	Contract worker salaries, etc.	¥161,088	Business consignment fees	¥26,621	Depreciation	¥42,867	Land and residential rental fees	¥79,505	Advisor fees	¥59,241	Commissions	¥71,801	Traveling and transportation expenses	¥64,881	Vehicles	¥47
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Related to lease transactions

(in thousands)

Previous fiscal year (Ended Mar. 31, 2005)	Current fiscal year (Ended Mar. 31, 2006)																								
Finance lease transactions other than those accepted as the transfer of property rights of leased article to debtors	Finance lease transactions other than those accepted as the transfer of property rights of leased article to debtors																								
<p>1 Amount of acquisition price of leased article, amount of accumulated depreciation and amount of end of term balance</p> <p style="text-align: right;">(thousands)</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="text-align: center;">Tools and Equipment</th> <th style="text-align: center;">Total</th> </tr> </thead> <tbody> <tr> <td>Acquisition price</td> <td style="text-align: right;">¥80,762</td> <td style="text-align: right;">¥80,762</td> </tr> <tr> <td>Accumulated depreciation</td> <td style="text-align: right;">¥72,792</td> <td style="text-align: right;">¥72,792</td> </tr> <tr> <td>End of term balance</td> <td style="text-align: right;">¥7,970</td> <td style="text-align: right;">¥ 7,970</td> </tr> </tbody> </table>		Tools and Equipment	Total	Acquisition price	¥80,762	¥80,762	Accumulated depreciation	¥72,792	¥72,792	End of term balance	¥7,970	¥ 7,970	<p>1 Amount of acquisition price of leased article, amount of accumulated depreciation and amount of end of term balance</p> <p style="text-align: right;">(thousands)</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="text-align: center;">Tools and Equipment</th> <th style="text-align: center;">Total</th> </tr> </thead> <tbody> <tr> <td>Acquisition price</td> <td style="text-align: right;">¥33,681</td> <td style="text-align: right;">¥33,681</td> </tr> <tr> <td>Accumulated depreciation</td> <td style="text-align: right;">¥33,226</td> <td style="text-align: right;">¥33,226</td> </tr> <tr> <td>End of term balance</td> <td style="text-align: right;">¥455</td> <td style="text-align: right;">¥ 455</td> </tr> </tbody> </table>		Tools and Equipment	Total	Acquisition price	¥33,681	¥33,681	Accumulated depreciation	¥33,226	¥33,226	End of term balance	¥455	¥ 455
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<p>3 Lease fees due, amount of depreciation and amortization and amount of interest charges</p> <table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 60%;">Lease fees due</td> <td style="text-align: right;">¥17,112</td> </tr> <tr> <td>Depreciation and amortization</td> <td style="text-align: right;">¥16,082</td> </tr> <tr> <td>Interest charges</td> <td style="text-align: right;">¥481</td> </tr> </tbody> </table>	Lease fees due	¥17,112	Depreciation and amortization	¥16,082	Interest charges	¥481	<p>3 Adjusted decrease in leased assets, lease fees due, amount of depreciation and amortization and amount of interest charges</p> <table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 60%;">Lease fees due</td> <td style="text-align: right;">¥7,824</td> </tr> <tr> <td>Depreciation and amortization</td> <td style="text-align: right;">¥7,430</td> </tr> <tr> <td>Interest charges</td> <td style="text-align: right;">¥123</td> </tr> </tbody> </table>	Lease fees due	¥7,824	Depreciation and amortization	¥7,430	Interest charges	¥123												
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	<p>Impairment Loss</p> <p>There are no impairment losses distributed in the leased assets.</p>																								

Relating to marketable securities

There is no quoted price for the stock of either our Company's subsidiaries or affiliates for the previous fiscal year (April 1 2004 to March 31 2005) or this one (April 1 2005 to March 31 2006).

Relating to tax efficient accounting

Previous fiscal year (Ended Mar 31, 2005)	Current fiscal year (Ended Mar 31, 2006)
1 Breakdown of key factors contributing to the incidence of deferred tax assets	1 Breakdown of key factors contributing to the incidence of deferred tax assets
Deferred tax assets (thousand yen)	Deferred tax assets (thousand yen)
Net operating loss carried forward 1,464,230	Net operating loss carried forward 822,280
Depreciable assets 11,080	Depreciable assets 13,100
Software amortization 139	Software amortization 41
Losses on appraisal of affiliate stock 44,739	Losses on appraisal of affiliate stock 44,739
Deferred revenue 196,427	Deferred revenue 230,558
Data communication service cost reserve 11,545	Stock taking valuation allowance 3,447
Stock taking valuation allowance 6,960	Business tax payable 5,390
Business tax payable 4,524	<u>Others 1,571</u>
<u>Others 410</u>	Deferred Tax Assets (Subtotal) 1,121,126
Deferred Tax Assets (Subtotal) 1,740,054	<u>Valuation Allowance -1,121,126</u>
Valuation Allowance -1,740,054	<u>Deferred Tax Assets (Total) —</u>
<u>Deferred Tax Assets (Total) —</u>	
2 Breakdown of the key factors causing disparity between the legal tax rate and the burden of taxes, such as corporations tax, after tax efficient accounting.	2 Breakdown of the key factors causing disparity between the legal tax rate and the burden of taxes, such as corporations tax, after tax efficient accounting.
Effective tax rate (adjusted) (%) 40.69	Effective tax rate (adjusted) (%) 40.69
Permanent difference, such as entertainment expenses 1.87	Permanent difference, such as entertainment expenses 1.75
Per-capita municipal tax 6.55	Per-capita municipal tax 3.81
Use of deficits brought forward -198.49	Use of deficits brought forward -55.97
Others 1.41	Others 0.44
Valuation Allowance <u>154.52</u>	Valuation Allowance <u>13.09</u>
Tax burden from taxes, such as Corporations, tax following tax efficient accounting <u>6.55</u>	Tax burden from taxes, such as Corporations, tax following tax efficient accounting <u>3.81</u>

Data per share

Item	Previous fiscal year (Ended Mar 31, 2005)	Current fiscal year (Ended Mar 31, 2006)
Net assets per share	¥9,583.27	¥16,945.18
Net income per share	¥796.90	¥672.53
Net income per share on a fully diluted basis	—	¥644.31

(Note) 1 Net income per share on a fully diluted basis

For the previous fiscal year, there is a balance of residual securities, however, shares issued by this company were unlisted at the end of the previous fiscal year. Therefore, no entry is made because it is impossible to know the average stock price during the period.

2 Basis for calculating net income per share for the current fiscal year

Item	Previous fiscal year (Ended Mar 31, 2005)	Current fiscal year (Ended Mar 31, 2005)
Net income as shown on the Income Statement (thousand yen)	142,211	146,553
Net income from common stock (thousand yen)	142,211	146,553
Amount not appropriated to ordinary shareholders (thousand yen)	—	—
Average amount of common stock during this term (shares)	178,454.74	217,910.86

Important post-balance sheet events

Previous fiscal year (Ended Mar 31, 2005)	Current fiscal year (Ended Mar.31, 2006)																								
<p>1 Our company received approval for listing by the Osaka Securities Exchange on March 18, 2005 and was listed on their Hercules market on April 21, 2005. Upon this listing, the following new shares were issued.</p> <p>(New stock issuance by public offering) The following new stocks were issued by public offering as per a resolution at the Board of Directors' Meetings held on March 18 and April 1, 2005.</p> <p>(1) Type and number of shares</p> <table border="0"> <tr> <td>Common stock</td> <td style="text-align: right;">34,000 shares</td> </tr> <tr> <td>Issue price per share</td> <td style="text-align: right;">¥34,000</td> </tr> <tr> <td>Capital incorporation from issue prices per share</td> <td style="text-align: right;">¥17,000</td> </tr> <tr> <td>Total issue price</td> <td style="text-align: right;">¥1,156,000 thousand</td> </tr> </table> <p>(2) Issuing schedule</p> <table border="0"> <tr> <td>Offering period</td> <td style="text-align: right;">April 14 to 19, 2005</td> </tr> <tr> <td>Payment date</td> <td style="text-align: right;">April 20, 2005</td> </tr> </table> <p>(3) Dividend rights granted to the stock April 1, 2005</p> <p>(4) Use of funds Capital investments in equipment and software development, etc.</p> <p>(New stock issued by third party allocation) Subsequent to a resolution adopted at Board of Directors' Meetings held on March 18 and April 1, 2005, as per the following, a third party allocation capital increase was effectuated relating to the sale of this company's stock by over allotment (sale of 5000 shares (maximum limit) of our company's common stock borrowed from this company's stockholders by Daiwa Securities SMBC).</p> <p>(1) Type and number of issued shares</p> <table border="0"> <tr> <td>Common stock</td> <td style="text-align: right;">5,000 shares</td> </tr> <tr> <td>Issue price per share</td> <td style="text-align: right;">34,000</td> </tr> <tr> <td>Capital incorporation from issue price per share</td> <td style="text-align: right;">¥17,000</td> </tr> <tr> <td>Total issue price</td> <td style="text-align: right;">¥170,000 thousand</td> </tr> </table> <p>(2) Issuing schedule</p> <table border="0"> <tr> <td>Offering period</td> <td style="text-align: right;">April 21 to May 19, 2005</td> </tr> <tr> <td>Payment date</td> <td style="text-align: right;">May 23, 2005</td> </tr> </table> <p>(3) Dividend rights granted to the stock April 1, 2005</p> <p>(4) Allocated to Daiwa Securities SMBC</p> <p>(5) Use of funds Operating capital</p>	Common stock	34,000 shares	Issue price per share	¥34,000	Capital incorporation from issue prices per share	¥17,000	Total issue price	¥1,156,000 thousand	Offering period	April 14 to 19, 2005	Payment date	April 20, 2005	Common stock	5,000 shares	Issue price per share	34,000	Capital incorporation from issue price per share	¥17,000	Total issue price	¥170,000 thousand	Offering period	April 21 to May 19, 2005	Payment date	May 23, 2005	<p>1 Establishment of a subsidiary On April 3, 2006, our Company established a US subsidiary, Communications Security and Compliance Technologies, Inc. (Headquarters: Atlanta, Georgia).</p>
Common stock	34,000 shares																								
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Previous fiscal year (Ended Mar 31, 2005)	Current fiscal year (Ended Mar.31, 2006)
<p>2. Exercise of stock options The following stock options were exercised after the fiscal year.</p> <p>1. Portion exercised on April 25, 2005</p> <p>(1) Type and number of shares issued by exercising stock options as well as the issue price per share Common stock: 252 shares ¥16,667</p> <p>(2) Total issue price of shares issued by exercising stock options ¥4,200 thousand</p> <p>(3) Capital incorporation of shares issued by exercising stock options ¥4,200 thousand</p> <p>(4) Dividend rights granted to the stock April 1, 2005</p> <p>2. Portion exercised on April 26, 2005</p> <p>(1) Type and number of shares issued by exercising stock options as well as the issue price per share Common stock 45 shares ¥16,667 Common stock 10 shares ¥26,667</p> <p>(2) Total issue price of shares issued by exercising stock options ¥1,016 thousand</p> <p>(3) Capital incorporation of shares issued by exercising stock options ¥883 thousand</p> <p>(4) Dividend rights granted to the stock April 1, 2005</p> <p>3. Portion exercised on April 27, 2005</p> <p>(1) Type and number of shares issued by exercising stock options as well as the issue price per share Common stock 27 shares ¥16,667</p> <p>(2) Total issue price of shares issued by exercising stock options ¥450 thousand</p> <p>(3) Capital incorporation of shares issued by exercising stock options ¥450 thousand</p> <p>(4) Dividend rights granted to the stock April 1, 2005</p> <p>4. Portion exercised on April 28, 2005</p> <p>(1) Type and number of shares issued by exercising stock options as well as the issue price per share Common stock 39 shares ¥16,667 Common stock 17 shares ¥26,667</p> <p>(2) Total issue price of shares issued by exercising stock options ¥1,103 thousand</p> <p>(3) Capital incorporation of shares issued by exercising stock options ¥876 thousand</p> <p>(4) Dividend rights granted to the stock April 1, 2005</p>	