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Company Name: Japan Communications Inc. Listed Securities Exchange: Osaka Securities Exchange, Hercules
 Stock code: 9424

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

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1. Quarter consolidated financial results • General matters related to achievement

- ① Were there any changes in the accounting method for the current fiscal year? Yes (details in attachments)
 ② Were there any changes in the scope of consolidation or use of the equity method? Yes (as follows)
 Consolidated companies added: 2
 ③ Was there any involvement of a certified public accountant or auditor? No

2. Financial results and earnings outlook for the third quarter of the fiscal year ending March 2007 (April 1, 2006 to December 31, 2006)

(1) Progress report of management results (consolidated) (Amounts rounded down, percentages rounded)

	Net Sales		Operating Profit		Ordinary Income		Net Income (This quarter)	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
Q3 for year ending March 2007	2,971	(19.9)	(540)	—	(521)	—	(566)	—
Q3 for year ending March 2006	3,710	—	165	—	114	—	109	—
Year ending March 2006 (for reference)	4,943		173		113		107	

	Net income per share (this period)	Diluted net income per share (this period)
	Yen	Yen
Q3 for year ending March 2007	(2,525.89)	—
Q3 for year ending March 2006	508.00	485.22
Year ending March 2006 (for reference)	495.40	474.61

- Notes: 1. The percentages displayed in net sales, operating profit, etc. show the relative change in relation to the same quarter of the previous year.
 2. Diluted net income per share is not shown for the third quarter of the fiscal year ended March 2006 due to the fact that there was a quarterly net loss per share.

Qualitative Progress Report on Results of Operations (Consolidated)

Following the large-scale losses posted in the previous interim accounting period, a twofold focus was adopted for the third quarter of the fiscal year ending March 2007: to bring the company back into the black and to develop our businesses abroad. As a result, ordinary income for the current quarter (October to December) on a non-consolidated basis was 59 million yen, an increase of 158 million yen over the previous quarter (July to September). However, we are continuing in our efforts to develop our businesses abroad.

On a consolidated basis, revenue for the third quarter of the fiscal year ending March 2007 was 2,971 million yen, a decrease of 739 million yen (19.9%) over the corresponding period of the previous fiscal year. This was due to a 499 million yen (32.1%) decrease in the enterprise mobile phone service, following a strategic decision taken in the fiscal year ending 2002 to diminish said service, and to a 239 million yen (11.1%) decrease in our data service. While we are committed to providing 3G data services through interconnection with a third generation mobile communications (3G) provider, at present this interconnection has not yet been achieved. While customer contracts increased by 24.4% over the previous corresponding period, we could not respond to customer demand for a switchover from PHS to 3G, and when cancellations are taken into account, total contract growth was a more modest 4.5%. At the same time, due to reduced demand for PHS (caused by 3G, among other factors), our consumer service decreased by 23.2% versus the previous corresponding period.

Gross profit from sales for the current interim accounting period was 965 million yen (a decrease of 464 million yen (32.5%) over the previous corresponding period). This is due to the fixed nature of the provisioning costs for the network used in our data communication services, which has a strong influence on gross profits when sales decrease in the manner seen in this interim consolidated accounting period. Further, as we lack a direct interconnection with a 3G carrier, the 3G services that we do offer to respond to the needs of certain customers have a low profit margin and thus also negatively impact gross profits.

While Selling, General and Administrative expenses amounted to 1,506 million yen (an increase of 240 million yen (19.0%) over the previous corresponding period), this is chiefly due to a 322 million yen increase resulting from the March 2006 acquisition of US subsidiary Arxceo Corporation, and the April 2006 establishment of US subsidiary CSCT.

As a result of the above, we saw an operating loss of 540 million yen (a decrease of 705 million yen on the previous corresponding period), and an ordinary loss of 521 million yen (a decrease of 635 million yen on the previous corresponding period). Further, when the extraordinary loss of 75 million yen resulting from such factors as one-time restructuring costs announced in the previous interim consolidated period are included, the net loss for the current consolidated accounting period is 566 million yen (a decrease in profit of 676 million yen as compared with the previous corresponding period).

(2) Changes in financial condition (consolidated)

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Million Yen	Million Yen	%	Yen
Q3 for year ending March 2007	5,335	3,232	60.6	14,157.41
Q3 for year ending March 2006	4,786	3,725	77.8	16,674.81
Year ending March 2006 (for reference)	5,364	3,733	69.6	16,657.01

(3) Consolidated cash flow status

	Cash Flow From Operations	Cash Flow From Investing	Cash Flow From Financing	Cash and Cash Equivalents at end of period
	Million Yen	Million Yen	Million Yen	Million Yen
Q3 for year ending March 2007	(228)	(685)	739	1,720
Q3 for year ending March 2006	343	(924)	1,850	2,257
Year ending March 2006 (for reference)	154	(1,609)	2,375	1,885

Qualitative information report on management results (consolidated)

Total assets for this quarter were 5,335 million yen, a decrease of 29 million yen from the end of the previous period. Net assets at the end of the quarter totaled 3,232 million yen, 501 million yen less than at the end of the previous period. The primary cause of this was an 85 million yen decrease in accounts receivable attributable to a change in the revenue recognition method for our enterprise mobile phone service. Liabilities increased 561 million yen from the end of the previous period to 2,103 million yen, primarily caused by an increase in long-term debt of 733 million yen.

3. Dividends for the fiscal year ending March 2007 (individual)

As our Group has not yet paid dividends, there is no information to report.

Reference

Consolidated forecast for the fiscal year ending March 2007 (April 1, 2006 - March 31, 2007)

The forecast is unchanged from the forecast announced on November 15, 2006.

	Net Sales	Ordinary Income	Net Income
	Million Yen	Million Yen	Million Yen
Current Period	—	—	—
Full Year	4,433	(375)	(452)

Reference: The full-year forecasted net income per share: (2,014.32) yen

※ For the period ending March 2007, the revenue recognition standard for our Telecom Service has changed. With this change, the sales period for our Telecom Service will be 11 months, so an expected reduction in revenue of 125 million yen and a reduction in Ordinary income and net income of 20 million yen 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, forecast 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.

1. Consolidated balance sheet

Segment	This Quarter (Q3 for the FY ending March 2007)		Same Quarter Last Year (Q3 for the FY ending March 2006)		Previous Fiscal Year (Reference)		
	Amount (thousand yen)	(%)	Amount (thousand yen)	(%)	Amount (thousand yen)	(%)	
Assets							
I Current Assets							
1 Cash and equivalents		1,087,090		2,166,362		1,200,408	
2 Accounts receivable - trade		524,010		600,213		678,706	
3 Marketable securities		633,809		91,574		684,725	
4 Merchandise		71,923		31,078		65,972	
5 Inventory		129,804		119,043		272,002	
6 Accounts receivable - other		8,082		13,224		23,578	
7 Other		122,923		33,330		49,676	
Allowance for doubtful accounts		(1,000)		(1,000)		(1,000)	
Total current assets		2,576,644	48.3	3,053,827	63.8	2,974,071	55.4
II Fixed assets							
1 Tangible fixed assets							
(1) Buildings and related facilities	17,716			21,361		20,314	
(2) Vehicles	2,270			3,508		3,043	
(3) Tools, furniture and equipment	216,593			237,196		234,427	
(4) Mobile devices	50,728	287,308		77,676	339,742	67,534	325,320
2 Intangible fixed assets							
(1) Trademarks	3,004			3,274		3,096	
(2) Patents	2,081			370		950	
(3) Telephone subscriber rights	1,294			1,294		1,294	
(4) Software	1,035,505			1,271,310		653,937	
(5) Temporary account for software	893,215			—		841,854	
(6) Consolidated adjustment account	435,398	2,370,500		—	1,276,249	459,586	1,960,719
3 Investments and other assets							
(1) Security deposits	52,339			52,976		53,296	
(2) Other	37,069			43,008		32,582	
Allowance for doubtful receivables	(19)	89,389		(19)	95,964	(19)	85,859
Total fixed assets		2,747,197	51.5	1,711,956	35.8	2,371,899	44.2
III Deferred assets							
1 New share issuing expense		11,579		20,842		18,526	
Deferred asset total		11,579	0.2	20,842	0.4	18,526	0.3
Total assets		5,335,421	100.0	4,786,626	100.0	5,364,497	100.0

Segment	This Quarter (Q3 for the FY ending March 2007)		Same Quarter Last Year (Q3 for the FY ending March 2006)		Previous Fiscal Year (Reference)	
	Amount (thousand yen)	(%)	Amount (thousand yen)	(%)	Amount (thousand yen)	(%)
Liabilities						
I Current liabilities						
1 Accounts payable	231,462		433,987		287,996	
2 Short-term debt	500,000		—		500,000	
3 Current portion of long-term debt	266,400		4,500		—	
4 Accounts payable – other	114,140		129,540		132,370	
5 Corporate and other taxes payable	7,889		7,677		13,520	
6 Deferred revenue	383,980		442,877		567,957	
7 Data communication service cost reserves	—		1,704		—	
8 Other	132,227		40,662		39,537	
Total current liabilities	1,636,100	30.7	1,060,950	22.2	1,541,382	28.7
II Fixed liabilities						
1 Long-term debt	467,000		—		—	
Total fixed liabilities	467,000	8.7	—	—	—	—
Total liabilities	2,103,100	39.4	1,060,950	22.2	1,541,382	28.7
Minority interests						
Minority interests	—	—	—	—	89,404	1.7
Shareholders' equity						
I Common stock	—	—	2,259,836	47.2	2,269,710	42.3
II Capital surplus	—	—	1,567,660	32.7	1,576,246	29.4
III Retained earnings (loss)	—	—	(31,149)	(0.7)	(32,899)	(0.6)
IV Exchange conversion adjustment	—	—	(68,930)	(1.4)	(69,134)	(1.3)
V Net unrealized gain on other securities	—	—	—	—	(8,471)	(0.2)
VI Treasury stock	—	—	(1,741)	(0.0)	(1,741)	(0.0)
Total shareholders' equity	—	—	3,725,676	77.8	3,733,710	69.6
Total liabilities and shareholders' equity	—	—	4,786,626	100.0	5,364,497	100.0
Net assets						
I Shareholders' equity						
1 Common stock	2,273,020	42.5	—	—	—	—
2 Capital surplus	1,579,011	29.6	—	—	—	—
3 Retained earnings (loss)	(599,461)	(11.2)	—	—	—	—
4 Treasury stock	(1,741)	(0.0)	—	—	—	—
Total shareholders' equity	3,250,829	60.9	—	—	—	—
II Valuation and conversion adjustments						
1 Net unrealized gain on other securities	309	0.0	—	—	—	—
2 Exchange conversion adjustment	(74,321)	(1.4)	—	—	—	—
Total valuation and conversion adjustments	(74,011)	(1.4)	—	—	—	—

III	New stock acquisition rights, etc.	7,445	0.1					
IV	Minority interests	48,056	1.0	—	—	—	—	—
	Total net assets	3,232,320	60.6	—	—	—	—	—
	Total liabilities and net assets	5,335,421	100.0	—	—	—	—	—

2. Quarterly consolidated income statement

Segment	This Quarter (Q3 for the FY ending March 2007)		Same Quarter Last Year (Q3 for the FY ending March 2006)		Previous Fiscal Year (Reference)	
	Amount (thousand yen)	(%)	Amount (thousand yen)	(%)	Amount (thousand yen)	(%)
I Net sales						
1 Revenue	2,971,978	100.0	3,710,988	100.0	4,943,987	100.0
II Cost of sales						
2 Cost of goods sold	2,006,228	67.5	2,280,345	61.4	3,035,560	61.4
Gross profit	965,749	32.5	1,430,642	38.6	1,908,427	38.6
III Selling, general and administrative expenses	1,506,413	50.7	1,265,623	34.1	1,734,476	35.1
Operating profit (loss)	(540,663)	(18.2)	165,019	4.5	173,950	3.5
IV Non-operating income						
1 Interest income	9,913		1,581		8,607	
2 Interest on securities	18,820		—		—	
3 Foreign exchange gains	6,350		24,122		22,852	
4 Other	505	35,589	306	26,010	557	32,017
V Non-operating expenses						
1 Interest expense	7,324		373		493	
2 Expenses related to IPO	—		69,369		69,369	
3 New share expense amortization	6,947		6,947		9,263	
4 Loss on sale of securities	2,199		—		12,800	
5 Other	193	16,665	161	76,851	161	92,088
Ordinary income (loss)	(521,739)	(17.6)	114,177	3.1	113,880	2.3
VI Extraordinary loss						
1 Loss on disposal of fixed assets	1,216		115		115	
2 One-time restructuring expense	75,504		—		—	
3 Loss on change in equity	7,209	83,929	—	115	—	115
Net income (loss) before income taxes	(605,669)	(20.4)	114,062	3.1	113,764	2.3
Corporate, residence and business taxes	4,357	0.1	4,357	0.1	5,810	0.1
Loss from minority interest	43,464	(1.4)	—	—	—	—
Net income (loss)	(566,562)	(19.1)	109,704	3.0	107,954	2.2

3. Consolidated statement of retained earnings

Consolidated third quarter (April 1, 2006 to December 31, 2006)

Segment	Same Quarter Last Year (Q3 for the FY ending March 2006)		Previous Fiscal Year (Reference)	
	Amount (thousand yen)		Amount (thousand yen)	
Capital surplus				
I Balance of capital surplus at beginning of period		383,056		383,056
II Increase in capital surplus				
1 Capital increase from issuance of new stock	1,184,603	1,184,603	1,193,189	1,193,189
III Capital surplus at end of period		1,567,660		1,576,246
Retained earnings				
I Retained earnings at beginning of period		(140,853)		(140,853)
II Increase in retained earnings				
1 Net profits this period	109,704	109,704	107,954	107,954
III Retained earnings at end of period		(31,149)		(32,899)

2. Consolidated statement of Shareholders' Equity

Current Consolidated Accounting Period (From April 1, 2006 to December 31, 2006)

(thousand yen)

	Shareholders Equity					Valuation and conversion adjustments			New share acquisition rights	Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings (loss)	Treasury stock	Total shareholders' equity	Net unrealized gain on other securities	Exchange conversion adjustment	Total Valuation and Conversion adjustments			
Balance as of March 31, 2006	2,269,710	1,576,246	(32,899)	(1,741)	3,811,316	(8,471)	(69,134)	(77,606)	1,419	89,404	3,824,533
Changes during the current consolidated accounting period											
New stock issuance	3,310	2,765			6,075						6,075
Current period net loss			(566,562)		(566,562)						(566,562)
Changes other than to shareholders' equity during the current consolidated accounting period						8,781	(5,186)	3,594	6,026	(41,347)	(31,726)
Total changes during the current consolidated accounting period	3,310	2,765	(566,562)		(560,486)	8,781	(5,186)	3,594	6,026	(41,347)	(592,213)
Balance as of December 31, 2006	2,273,020	1,579,011	(599,461)	(1,741)	3,250,829	309	(74,321)	(74,011)	7,445	48,056	3,232,320

4. Consolidated cash flow statement for the quarter

	This Quarter (Q3 for the FY ending March 2007)	Same Quarter Last Year (Q3 for the FY ending March 2006)	Previous Fiscal Year (Reference)
Segment	Amount (thousand yen)	Amount (thousand yen)	Amount (thousand yen)
I Cash flow from operations			
Net income (loss) before taxes and others	(605,669)	114,062	113,764
Depreciation and amortization	128,268	121,153	161,201
Intangible fixed asset depreciation	172,867	136,049	188,750
Amortization of new stock expenses	—	—	9,263
Amortization of goodwill	17,234	—	—
Data communication service cost reserve	—	(26,667)	(28,372)
Interest income	(9,913)	(1,581)	(8,607)
Interest income on securities	(18,820)	—	—
Interest expense	7,324	373	493
Interest income on securities	1,216	115	115
Gain or loss on foreign exchange	(5,024)	—	(15,302)
Loss on sale of marketable securities	2,199	—	12,800
Increase (decrease) in notes and accounts receivable	157,900	(30,039)	(115,113)
Increase (decrease) in inventory	137,029	3,708	(175,039)
Increase (decrease) in trade payables	(56,541)	134,312	(15,450)
Increase (decrease) in deferred revenue	(183,976)	(39,862)	85,217
Increase (decrease) in accrued consumption tax	—	(75,714)	(64,703)
Other	13,820	15,079	9,898
Subtotal	(242,084)	350,989	158,916
Net receipts from interest and dividends	28,733	1,581	8,607
Net interest paid	(9,557)	(373)	(1,263)
Corporate and other income taxes paid	(5,810)	(8,715)	(11,620)
Net cash flow from operations	(228,718)	343,482	154,640

	This Quarter (Q3 for the FY ending March 2007)	Same Quarter Last Year (Q3 for the FY ending March 2006)	Previous Fiscal Year (Reference)
Segment	Amount (thousand yen)	Amount (thousand yen)	Amount (thousand yen)
II Cash flow from investing			
Purchase of tangible fixed assets	(76,008)	(179,308)	(209,193)
Purchase of intangible fixed assets	(605,706)	(706,944)	(984,284)
Purchase of consolidated subsidiaries	—	—	(388,056)
Security deposit payments	1,079	(4,983)	(7,417)
Other	(4,486)	(33,586)	(21,035)
Net cash flow from investing	(685,121)	(924,822)	(1,609,986)
III Cash flow from financing			
Increase of short-term debt	—	—	500,000
Proceeds from issuance of common stock	5,767	1,919,107	1,943,546
Increase (decrease) in long-term debt	733,400	(67,509)	(54,000)
New share issuance expense	—	—	(12,940)
Treasury stock acquisition expense	—	(929)	(929)
Other	—	—	—
Net cash flow from financing	739,167	1,850,667	2,375,676
IV Effect of exchange rate changes on cash and cash equivalents	10,438	10,491	(13,314)
V Net increase in cash and cash equivalents	(164,234)	1,279,818	907,016
VI Cash and cash equivalents at beginning of period	1,885,134	978,117	978,117
VII Cash and cash equivalents at end of period	1,720,899	2,257,936	1,885,134

Regarding changes in the revenue recognition method for the current consolidated fiscal year

Our company's telecom service procures mobile phone lines from mobile communications carriers and offers value-added services to enterprises such as separate billing for official and personal use. Specifically, we obtain users' communication records from mobile communications carriers and, on the basis of these records, process bills using our company's billing system. Where value-added services such as separate billing are implemented, we bill and collect fees from enterprises (and, if there are private usage portions that are separated, from individuals). Simply put, this process has two-steps: first, communication takes place on a user's mobile phone; and second, based on the record of this communication, charging and billing occurs.

In the past, the accounting standard for telecom services has been based on when the communication on the mobile phone occurred. However, starting this consolidated fiscal year, the accounting standard will be based not on when the communication occurred but when the bills have been processed and charged.

Making this change will increase the value add of our company's telecom service as this value depends on our clients awareness of what has qualitatively changed: the fact that it's not just about communication on mobile phones, but it's also about the included charging and billing system that takes place afterward. Moreover, a planned reduction in the telecom service, which peaked in the fiscal year ending March 2002, has taken place in order to focus on the data communication service that began in the same year. In the fiscal year ending March 2006, the data communication service made up the majority of proceeds of this company. This, coupled with the fact that the telecom service had reached a turning point, led to this decision to change the accounting standard.

Additionally, the fact that this will allow our company and consolidated subsidiaries to produce our financial statements more quickly was also a key reason for implementing this change to the accounting standard.

As a result of the change in the accounting standard from this FY, the total sales period for the year of JCI telecom services has been reduced to 11 months. Eight of these months fell in Q3. When compared with the results the telecom service would have achieved in Q3 of the FY ending March 2007 had this change not been implemented, earnings have decreased by 115 million yen, while net operating profit, ordinary profit and net profit have all decreased by 26 million yen.