

## FINANCIAL RESULTS

### Financial Statements

#### (1) Balance Sheets

(in thousand yen)

	Prior Year End (As of March 31, 2003)		Current Year End (As of March 31, 2004)		Change
	Amount	%	Amount	%	Increase /Decrease
(ASSETS)					
Current Assets					
1 Cash and cash deposit	11,410,649		18,396,343		6,985,694
2 Accounts receivable	2,729,623		4,451,646		1,722,023
3 Merchandise	51,257		252,306		201,049
4 Inventory	—		18,855		18,855
5 Prepaid Expenses	278,747		219,509		59,238
6 Short-term loan receivable	832		—		832
7 Other receivable	377,339		391,656		14,317
8 Prepaid consumption taxes	515,367		—		515,367
9 Other current assets	1,269		1,907		638
Total current assets	15,365,083	36.1	23,732,223	48.2	8,367,140
Fixed Assets					
1 Tangible fixed assets					
(1) Building and structure	102,323		109,223		
Accumulated depreciation	26,144	76,179	38,473	70,750	5,429
(2) Machinery and equipment	27,468,063		35,114,092		
Accumulated depreciation	6,770,933	20,697,130	14,516,488	20,597,604	99,526
(3) Capitalized modems	4,109,385		3,102,466		
Accumulated depreciation	1,406,856	2,702,529	2,004,217	1,098,250	1,604,279
(4) Tools and furniture	365,869		603,880		
Accumulated depreciation	165,766	200,103	293,052	310,828	110,725
Total tangible fixed assets	23,675,941	55.6	22,077,432	44.9	1,598,509
2 Intangible assets					
(1) Goodwill	1,282,332		961,749		320,583
(2) Software	554,762		1,144,121		589,359
(3) Software in progress	255,130		92,828		162,302
(4) Indefeasible right of use	415,800		323,400		92,400
(5) Telephone subscription rights	486		486		—
Total intangible assets	2,508,510	5.9	2,522,584	5.1	14,074
3 Investments and other assets					
(1) Investment securities	200,000		200,000		—
(2) Long-term loan receivable	12,327		—		12,327
(3) Long-term prepaid expenses	631,950		476,009		155,941
(4) Long-term deposits	189,186		193,609		4,423
Total investments and other assets	1,033,463	2.4	869,618	1.8	163,845
Total fixed assets	27,217,914	63.9	25,469,635	51.8	1,748,279
TOTAL ASSETS	42,582,997	100.0	49,201,858	100.0	6,618,861

(in thousand yen)

	Prior Year End (As of March 31, 2003)		Current Year End (As of March 31, 2004)		Change
	Amount	%	Amount	%	Increase /Decrease
(LIABILITIES)					
Current Liabilities					
1 Trade accounts payable	448,662		754,954		306,292
2 Short-term loan	3,100,000		—		3,100,000
3 Current portion of long-term debt	4,266,664		5,453,340		1,186,676
4 Other accounts payable	468,467		369,140		99,327
5 Accrued expenses	4,840,563		3,599,104		1,241,459
6 Income taxes payable	7,020		9,320		2,300
7 Taxes and insurance withheld	20,421		72,697		52,276
8 Current portion of capital lease obligations	4,389,376		5,858,493		1,469,117
9 Current portion of installment obligations	1,403,513		1,160,255		243,258
10 Payable for fixed assets purchases	580,748		611,550		30,802
11 Consumption taxes payable	—		367,870		367,870
12 Stock purchase warrants	28,733		28,733		—
13 Other current liabilities	5,309		10,597		5,288
Total current liabilities	19,559,476	45.9	18,296,053	37.2	1,263,423
Long-term liabilities					
1 Long-term debt	6,133,340		5,350,000		783,340
2 Capital lease obligations, less current portion	9,656,118		9,206,831		449,287
3 Installment obligations, less current portion	1,423,881		155,075		1,268,806
4 Long-term other payables	323,400		231,000		92,400
Total long-term liabilities	17,536,739	41.2	14,942,906	30.4	2,593,833
TOTAL LIABILITIES	37,096,215	87.1	33,238,959	67.6	3,857,256
(SHAREHOLDERS' EQUITY)					
Capital Shares	10,528,290	24.7	13,670,490	27.8	3,142,200
Capital Surplus					
1 Additional paid-in capital	9,253,290		14,230,890		4,977,600
Total capital surplus	9,253,290	21.7	14,230,890	28.9	4,977,600
Retained Earnings (Accumulated Deficit)					
1 Deficit at end of period	14,294,798		11,938,482		2,356,316
Total retained earnings (accumulated deficit)	14,294,798	33.5	11,938,482	24.3	2,356,316
TOTAL SHAREHOLDERS' EQUITY	5,486,782	12.9	15,962,898	32.4	10,476,116
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	42,582,997	100.0	49,201,858	100.0	6,618,861

## (2) Statements of Operations

(in thousand yen)

	Year Ended (March 31, 2003)		Year Ended (March 31, 2004)		Change	
	Amount	%	Amount	%	Increase /Decrease	
Revenue	20,275,769	100.0	38,142,518	100.0	17,866,749	
Cost of revenue	16,699,002	82.4	24,855,988	65.2	8,156,986	
Gross profit	3,576,767	17.6	13,286,530	34.8	9,709,763	
Selling, general and administrative expenses						
1 Advertising	492,288		8,900			
2 Sales promotion	1,816,953		2,719,992			
3 Salaries and benefits	1,337,854		1,508,511			
4 Professional fees	134,154		97,775			
5 Travel	66,542		94,456			
6 Rent	372,140		330,912			
7 Outsourcing	2,591,957		2,903,007			
8 Recruiting	37,471		28,935			
9 Supplies	40,685		14,344			
10 Tools	14,535		27,859			
11 Freight and communications	347,451		244,296			
12 Depreciation	86,514		122,270			
13 Amortization	453,258		618,465			
14 Others	131,246	7,923,048	427,015	9,146,736	24.0	1,223,688
Operating profit (loss)	4,346,281	21.4	4,139,793	10.9	8,486,074	
Other income						
1 Interest income	1,394		410			
2 Interest income from securities	200		33			
3 Income from sale of fixed assets	—		10,361			
4 Compensation income	10,457		—			
5 Insurance income	8,518		6,809			
6 Consumption tax refund income	11,827		2,702			
7 Miscellaneous income	3,484	35,880	6,496	26,810	0.1	9,070
Other expenses						
1 Interest expense	906,853		1,235,707			
2 Commission expense	77,880		109,425			
3 Registration taxes for share issuances	—	984,733	97,031	1,442,162	3.8	457,429
Recurring profit (loss)	5,295,134	26.1	2,724,441	7.1	8,019,575	
Non-recurring loss						
1 Inventory write-offs	151,464		—			
2 Loss on disposition of assets	—		171,947			
3 Non-recurring depreciation of machinery and equipment	—		186,858			
4 Non-recurring amortization of software	125,244	276,707	0	358,805	0.9	82,098
Income (loss) before income taxes	5,571,841	27.5	2,365,636	6.2	7,937,477	
Income taxes	7,020	0.0	9,320	0.0	2,300	
Net income (loss)	5,578,861	27.5	2,356,316	6.2	7,935,177	
Accumulated deficit from prior period	8,715,937		14,294,798		5,578,861	
Deficit at end of period	14,294,798		11,938,482		2,356,316	

Statements of Cost of Revenues

(in thousand yen)

	Year Ended (March 31, 2003)		Year Ended (March 31, 2004)		Change
	Amount	%	Amount	%	Increase /Decrease
Tools	988,555	5.9	58,741	0.2	929,814
Salaries and benefits	432,359	2.6	515,130	2.1	82,771
Other cost of revenues					
1 Outsourcing	184,549	1.1	322,132	1.3	137,583
2 Depreciation and amortization	6,456,659	38.7	9,486,990	38.2	3,030,331
3 Network	8,494,771	50.9	10,101,217	40.6	1,606,446
4 Modems	—	—	3,844,699	15.5	3,844,699
5 Others	142,109	0.8	527,080	2.1	384,971
Cost of revenues	16,699,002	100.0	24,855,988	100.0	8,156,986

## (3) Statements of Cash Flows

(in thousand yen)

	Year Ended (March 31, 2003)	Year Ended (March 31, 2004)	Change
	Amount	Amount	Increase /Decrease
Cash Flows from Operating Activities			
1 Income (loss) before income taxes	5,571,841	2,365,636	7,937,477
2 Depreciation	6,492,763	9,497,693	3,004,930
3 Amortization of intangible assets	503,668	730,033	226,365
4 Non-recurring depreciation of machinery and equipment	—	186,858	186,858
5 Non-recurring amortization of software	125,244	—	125,244
6 Inventory write-offs	—	156,598	156,598
7 Income from sale of fixed assets	—	10,361	10,361
8 Loss on disposition of assets	—	171,947	171,947
9 Interest income	1,594	443	1,151
10 Interest expense	906,853	1,235,707	328,854
11 Registration taxes for share issuances	—	97,031	97,031
12 Accounts receivable	1,709,528	1,722,023	12,495
13 Merchandise	1,549,189	201,049	1,750,238
14 Inventory	—	18,855	18,855
15 Prepaid Expenses	172,590	99,261	271,851
16 Other receivable	764,115	240,812	523,303
17 Prepaid consumption taxes	515,367	515,366	1,030,733
18 Other current assets	377	638	1,015
19 Long-term prepaid expenses	57,395	285,003	227,608
20 Long-term deposits	23,183	4,424	18,759
21 Trade accounts payable	2,165,937	306,293	2,472,230
22 Other accounts payable	266,584	99,327	167,257
23 Accrued expenses	2,592,629	217,811	2,810,440
24 Taxes and insurance withheld	3,444	52,276	48,832
25 Other current liabilities	5,093	373,158	368,065
26 Long-term other payables	46,200	92,400	46,200
Subtotal	2,527,946	13,946,341	11,418,395
27 Interest received	1,594	443	1,151
28 Interest paid	911,904	1,207,627	295,723
29 Payments of income taxes	5,010	7,020	2,010
Net cash provided by operating activities	1,612,626	12,732,137	11,119,511
Cash Flows from Investing Activities			
1 Purchase of tangible assets	3,792,330	3,653,699	138,631
2 Acquisition of intangible assets	537,846	442,727	95,119
3 Purchase of investment securities	200,000	—	200,000
4 Acquisition of Japan Telecom's ADSL business	5,423,388	—	5,423,388
5 Proceeds from sale of fixed assets	—	29,826	29,826
6 Payments received on loan receivable	823	13,158	12,335
Net cash used in investing activities	9,952,741	4,053,442	5,899,299
Cash Flows from Financing Activities			
1 Payments on capital lease obligations	3,402,082	5,317,043	1,914,961
2 Payments on installment obligations	1,218,940	1,527,063	308,123
3 Proceeds from short-term loan	3,100,000	—	3,100,000
4 Payments for short-term loan	100,000	3,100,000	3,000,000
5 Proceeds from long-term debt	10,000,000	4,825,000	5,175,000
6 Payments for long-term debt	266,664	4,596,664	4,330,000
7 Proceeds from issuance of stocks, net of registration tax	—	8,022,769	8,022,769
Net cash provided by (used in) financing activities	8,112,314	1,693,000	9,805,314
Net change in cash and cash equivalents	227,801	6,985,694	7,213,495
Cash and cash equivalents at beginning of period	11,638,450	11,410,649	227,801
Cash and cash equivalents at end of period	11,410,649	18,396,343	6,985,694

(4) Proposal of Disposition of Deficit

(in thousand yen)

	Year Ended (March 31, 2003)	Year Ended (March 31, 2004)
	Amount	Amount
Deficit at end of period	14,294,798	11,938,482
Dispositon of deficit		
Reduction of additional paid-in capital	—	11,938,482
Deficit to be carried forward	14,294,798	0

**FINANCIAL FORECASTS**

(in million yen)

	Six-month Ending (September 30, 2004)	Year Ending (March 31, 2005)
	Amount	Amount
Revenue	24,500	51,000
Recurring Profit	2,000	5,000
Net Income	2,000	5,000