eAccess Ltd.

Securities code: 9427

Business Report

Year ended March 31, 2004

5th Fiscal Term

Sachio Semmoto, Chief Executive Officer

To Our Shareholders

Credibility

Public Listing: Ensuring a More Shareholder-Oriented Approach

Dear Shareholders,

Since our establishment in 1999, we have focused on providing “a new and more efficient broadband life for all.” Amid ongoing deregulation in the domestic market, we have promoted ADSL services as our corporate mission.

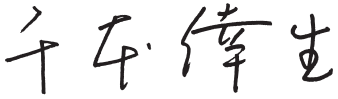
In the fiscal year ended March 2004, we posted a full-year net profit for the first time. We also eliminated our cumulative deficit through the reduction of additional paid-in capital. As a result, we have built a foundation that will enable us to pursue more flexible business strategies in the future.

In October 2003, we achieved our long-held objective of going public, with the listing of our shares on the Mothers market of the Tokyo Stock Exchange. On behalf of the Company, I would like to thank everyone for their support in helping us reach this important milestone.

Going forward, our directors and employees stand together, united in their resolve to ensure further progress of the Company and fulfill their social responsibilities. We are committed to becoming a highly credible company that everyone can trust.

We look forward to your ongoing support as we embrace the challenges of the future.

June 2004



Sachio Semmoto
Chief Executive Officer

Maximizing Corporate Value through a Balanced Focus on Growth and Profitability

Financial Results

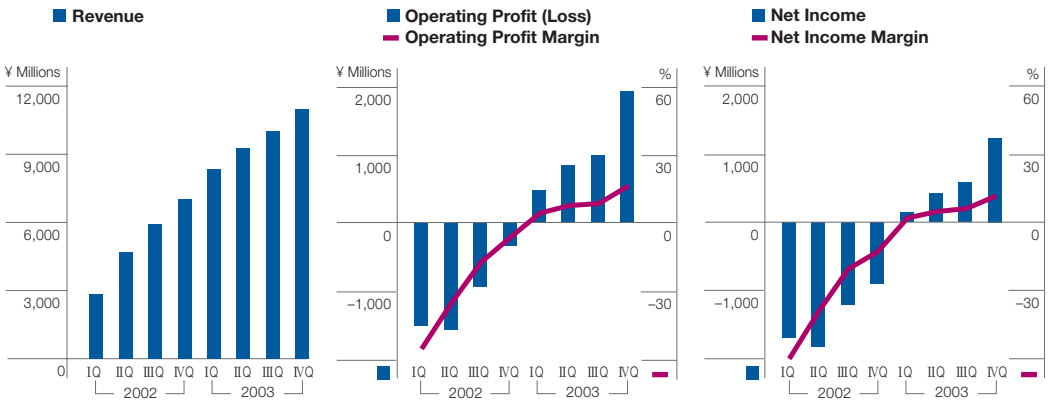
Profitability

Elimination of Accumulated Deficit and Achievement of our First Profit

eAccess was the first company in Japan to propose an ADSL (Note 1) wholesale business model to Internet service providers (ISPs). Since then, we have led the rapid broadband subscriber growth as the nation's No. 1 wholesaler.

By March 2004, the total number of DSL (Note 2) subscribers in Japan had grown to 11 million people, attracted by the high-speed, flat-fee, "always-on connection" benefits of ADSL service.

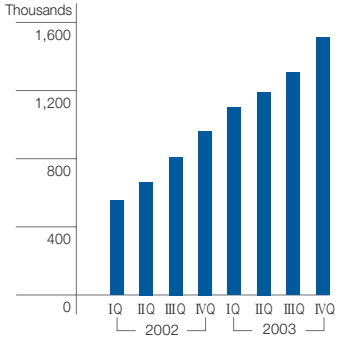
During that four-year period, we have worked with our partners—ISPs and electronic retail stores—to promote our ADSL services. As of March 31, 2004, we had approximately 1.5 million ADSL subscribers. Revenue for the year totaled ¥38.1 billion, and net income amounted to ¥2.36 billion, marking the first full year of profitability for the Company. We have since taken steps to eliminate our cumulative deficit. This will enable us to achieve a major profitability goal that we have targeted since our establishment.



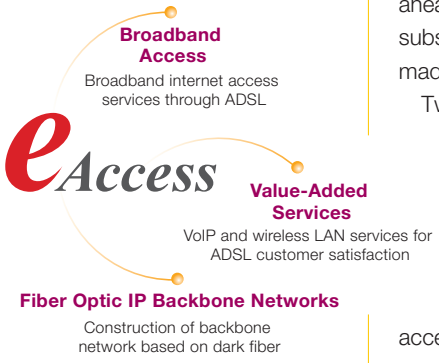
Notes: 1. ADSL (asymmetric digital subscriber line) is a popular form of DSL service. "Asymmetric" means that the upstream (PC to Internet) speed is different from the downstream (Internet to PC) speed. With the Company's "ADSL PlusQ" 40Mbps ADSL service, for example, the upstream speed is 1Mbps and the downstream speed is 40Mbps, the latter being equivalent to 625 times faster than the 64kbps offered by ISDN lines.

2. DSL (digital subscriber line) is a method of transmitting high-speed data digitally over standard copper telephone lines. There are various forms of DSL, including the SDSL (symmetric DSL), ADSL, and VDSL (very high bit-rate DSL).

Number of eAccess Accumlated Subscribers



Business Profile



Business Model Emphasizing Growth and Profitability

The potential domestic market for broadband is estimated at approximately 30 million, and we have a positive view on growth in the future. Meanwhile, overall prices across the broadband sector in the past two or three years have fallen dramatically. Although prices have recently stabilized, there is concern that intensifying price competition will result in lower profitability.

Since our establishment, we have remained keenly aware of the importance of "growing while achieving profitability" from the perspectives of customers, as well as shareholders and other investors. We have achieved profits ahead of our competitors while expanding our subscriber base, since we have set prices and made capital investments in a timely manner.

Two key factors separate eAccess from the pack: our nation's largest wholesaler business model, and our distinctive strategies. As a wholesale operator, we deliver broadband access services to our partner ISPs. Because we cooperate with ISPs to promote access services and provide customer support, we can reduce the costs of providing such services and support.

Unique Strategies and Strong Management Execution : Separating Ourselves from the Competition

We also have original strategies with respect to increasing subscribers and cutting costs. We pursue a strategy that prioritizes voice over Internet protocol (VoIP) and other value-added services in addition to basic connection speeds, such as our "ADSL Plus Q", the world's first service to deliver 40Mbps downstream speed. Compared with other wholesale operators, we are allied with a far greater number of ISPs, which allows users to easily switch to our services without having to change their e-mail addresses. We also work with partner ISPs to promote our services via electronic retail stores—a sales channel unique to eAccess—making our sales activities even more efficient. Moreover, we have built one of the world's largest fiber optic IP backbone networks based on NTT's dark fiber, which significantly reduces per subscriber network-related costs.

A strategy balancing business growth with profitability seems a matter of course. However, the greatest factor separating us from the competition is our strategy execution capability. We owe the progress we have made to date to our strict adherence to our business strategies. Indeed, the powerful execution capabilities of our management and employees represent our greatest strength.

Management Strategy

Execution

Value-Added Services Aimed at Further Increasing Earnings

We will continue to target further progress in increasing subscriber numbers, operating facilities more efficiently, providing more value-added services, and improving average revenue per user (ARPU). In addition to new services launched in 2003—such as VoIP, wireless LAN, and 24Mbps and 40Mbps connection speeds—we continue to broaden our subscriber base by delivering attractive new offerings, such as a 1Mbps menu that provides novice broadband users with a flat-rate, easy-to-use alternative.

In May 2004, we signed an agreement with AOL Japan for the transfer of AOL Japan's ISP business to eAccess. In this way, we have taken steps to further expand the scope of our business.

Meanwhile, we have started field trials for mobile broadband access. This is part of our plan to provide high-speed fixed and mobile services to users, irrespective of their location.

Maximizing Corporate Value

Our philosophy is that "trustworthy companies generate profits by following a path of sound growth." To this end, we place very high emphasis on corporate governance from the perspective of maintaining soundness and transparency of operations. In fact, we have taken the lead in our industry in a number of ways. For example, more than half of our directors are external directors. Also, by setting net income margin as a key performance indicator, we will target stable earnings while steadily increasing revenues. In other words, maximization of corporate value is our core objective.

Our social responsibility is to foster the emergence of a broadband-based society by providing more and more people with comfortable network environments. In this "size-is-not-paramount" world, therefore, we will strive to become recognized as a high-quality company. By steadily implementing our business strategies and reaping the rewards that result, we will accelerate our evolution as an organization that is trusted by subscribers and vendors, as well as shareholders and other investors. In the process, we will contribute to the renewed development of Japan's broadband market, which is one of the world's largest.

Shareholders' Value
Maximization

Basic Structure and Features of ADSL

What is ADSL?

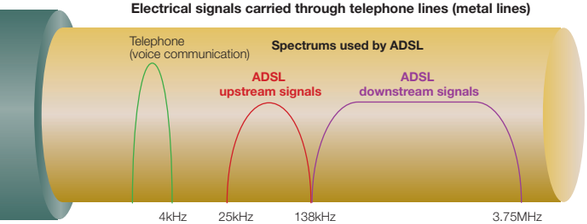
Asymmetric digital subscriber line

- **High-speed**
- **Always-on connection**
- **Flat-rate service**
- **Simultaneous phone and Internet**

ADSL technology allows high-speed data communication using existing subscriber telephone lines. Since it employs a spectrum that is not used when making a telephone call, both telephone and fax may be used while connected to the Internet.

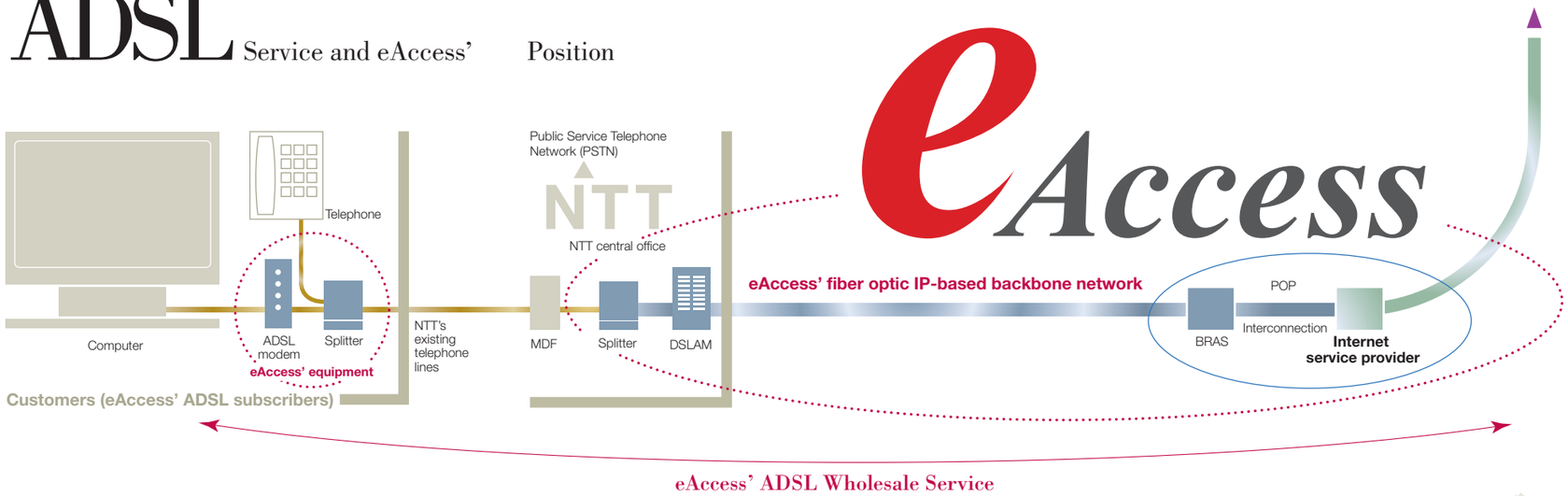
Because it uses existing telephone lines, no major installation work is required, and as there is a flat rate for the connection charge, users are able to enjoy the Internet without worrying about the length of time they are connected.

Electrical signals carried through telephone lines (metal lines)

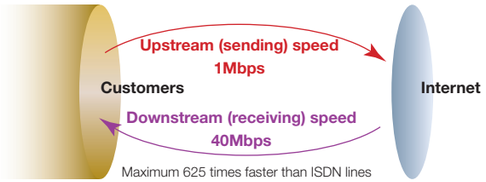


Upstream: Uploads data from your computer to the Internet
Downstream: Downloads data from websites to your computer

ADSL Service and eAccess' Position



eAccess' ADSL PlusQ 40Mbps ADSL Service



Maximum 625 times faster than ISDN lines
(maximum 64Kbps)

One of the World's Largest Fiber Optic IP Metropolitan Network

eAccess is utilizing the "dark fiber" lines (unused optical fiber) of NTT East/West for its construction of the high-speed IP backbone required for broadband communication. The network we are constructing covers most areas in Japan, and the operation of our fiber optic IP-based backbone network has already commenced.

By replacing the dedicated lines that form the backbone between the central offices with our own IP backbone network, we are able to provide a high-capacity, stable network while significantly reducing our backbone costs. Also, by using our partner telecom operators' networks of long distance lines (between regional areas), we are reducing costs and building a business structure that facilitates regional expansion.

Basics

Why is downstream speed faster than upstream speed? Most people use downstream more than they use upstream. For example, only downstream signals are used when receiving email, downloading online software, and when viewing websites that use image and/or audio data.

Splitter Splits voice and ADSL data, which are transmitted over different spectrums.

POP (Point of Presence) POPs are pieces of equipment, like routers and servers, that eAccess owns to aggregate user traffic.

bps: 1 bps means a connection speed of one bit of data per second. Theoretically, therefore, it would take approximately 10 seconds to send a full floppy disk of data (approx. 1.3 megabytes) at a speed of 1Mbps (1000kbps).

eAccess' ADSL Wholesale Model and Strengths

- Electronic retail stores
- eAccess' website
- Telemarketing
- Direct marketing
- PC bundling
- Others

eAccess Distribution Channels

Direct sales

Sales promotion activities directed at customers

Joint sales promotion activities with ISPs

Customer

Advertising and promotion

Application and installation

Billing and collection

Customer submits an application

eAccess submits an application

Response made to the customer

Response made to the customer

Modem supplied

ADSL Internet access fee

ADSL access fee

Payment

Payment

eAccess' Partner ISPs

Installation Application

Response made to the customer

eAccess NTT

Payments made to NTT
(e.g. collocation, dark fiber leasing fees)

Q. eAccess is the largest ADSL wholesale operator in Japan. How does its business model work?

eAccess is the first company in Japan to establish itself as an ADSL operator that wholesales ADSL access to ISPs. Under this business model, customers subscribe to an eAccess ADSL service through one of our partner ISPs. Customers pay fees (set-up fee, monthly fee, etc.) to their ISP.

Q. What advantages are there in having direct retail channels?

eAccess markets ADSL Internet connection services in cooperation with its partner ISPs. It also engages in sales promotion activities through various retail channels, including electronic retail stores, telemarketing, direct marketing and the eAccess website. We are steadily adding new ADSL subscribers through these multi-dimensional sales promotion activities.

News & Topics

Transfer of AOL Japan's ISP Business to eAccess

eAccess signed a definitive agreement with AOL Japan Inc. (AOL Japan) and America Online Inc. (AOL) in May 2004 for the transfer of AOL Japan's Internet Service Provider (ISP) business to eAccess.

Since November 2001, eAccess and AOL Japan have been working together on promoting broadband Internet services as ADSL wholesale partners. This business transfer came about because eAccess' goal of expanding its ISP network outsourcing services to provide additional product lines for the Company's core ADSL business coincided with AOL's intention to continue increasing the number of its broadband subscribers in Japan.

Following the resolution adopted at a shareholders' general meeting, all business assets related to AOL Japan's ISP business, as well as rights, contractual relations, and employees necessary for the operation of AOL Japan's ISP business, were transferred to eAccess.

Existing AOL subscribers will be provided with ongoing services, and cooperation with AOL regarding technology, content, and hosting will continue as before.

AOL subscribers will be able to receive a variety of new services as a result of integrated ADSL services, including ADSL connections and collaboration between eAccess and AOL. eAccess will be able to expand its business scope even further and raise the added value of its connection business as a result of leveraging with the AOL brand, the largest ISP brand in the world.

eAccess Obtains Full Trial License for TD-SCDMA (MC), Next-Generation Mobile Broadband Access

In May 2004, eAccess obtained a full trial license for TD-SCDMA (MC), a next-generation mobile broadband access service, from the Ministry of Public Management, Home Affairs, Posts and Telecommunications. eAccess had already obtained a provisional license, but the transfer to a full license will allow the company to implement field trials and collect trial data. Upon receiving the license, eAccess commenced testing of the TD-SCDMA (MC) system at a test facility in Tokyo, with plans to conduct the trial for approximately one year.

By undertaking this field trial, eAccess will make a technological evaluation of radio wave characteristics and throughput characteristics, as well as investigate the feasibility of a fixed and mobile ADSL broadband service made possible by this system. It also plans to submit the results of the field trial to the IMT-2000 technology survey working party.

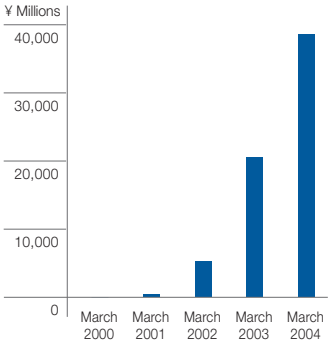
eAccess will develop and provide new services to allow even more people to enjoy a rich and comfortable Internet life.

TD-SCDMA (MC) Technology

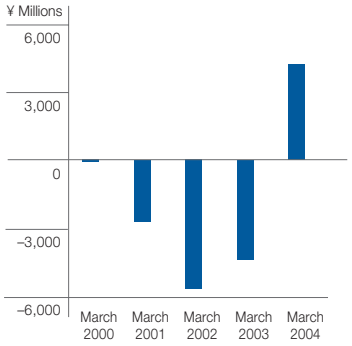
TD-SCDMA (MC) is a TDD system developed by Dr. Guanghan Xu, CTO of U.S.-based Navini Networks. TD-SCDMA (MC) effectively uses the spectrum to enable faster data communication over a wider range through its cutting-edge technologies, including smart antenna, multi-carrier techniques, and synchronous CDMA. It is a technology that complies with the IMT-2000 concept.

We posted a full-year profit for the first time, for the year ended March 2004.

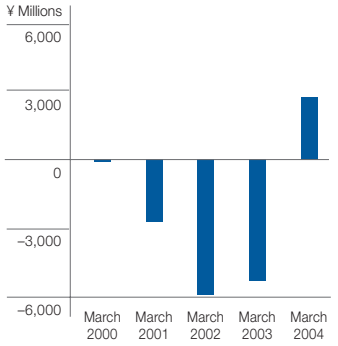
Revenue



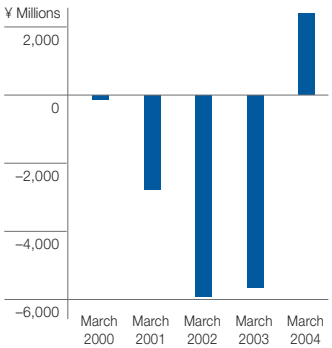
Operating Profit (Loss)



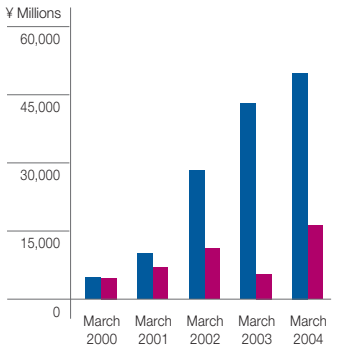
Recurring Profit (Loss)



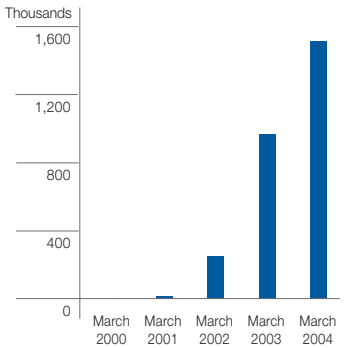
Net Income (Loss)



Total Assets
Total Shareholders' Equity



Number of eAccess Accumulated Subscribers



Balance Sheets

(¥ Millions)

	As of March 31, 2004	As of March 31, 2003
Assets		
Current Assets	**23,732**	**15,365**
Cash and cash deposit	18,396	11,410
Accounts receivable	4,451	2,729
Merchandise	252	51
Inventory	18	—
Prepaid expenses	219	278
Short-term loan receivable	—	0
Other receivable	391	377
Prepaid consumption taxes	—	515
Other current assets	1	1
Fixed Assets	**25,469**	**27,217**
Tangible fixed assets	**22,077**	**23,675**
Buildings and structure	70	76
Machinery and equipment	20,597	20,697
Capitalized modems	1,098	2,702
Tools and furniture	310	200
Intangible assets	**2,522**	**2,508**
Goodwill	961	1,282
Software	1,144	554
Software in progress	92	255
Indefeasible right of use	323	415
Telephone subscription rights	0	0
Investments and other assets	**869**	**1,033**
Investment securities	200	200
Long-term loan receivable	—	12
Long-term prepaid expenses	476	631
Long-term deposits	193	189
Total Assets	**49,201**	**42,582**

	As of March 31, 2004	As of March 31, 2003
Liabilities		
Current Liabilities	**18,296**	**19,559**
Trade accounts payable	754	448
Short-term loan	—	3,100
Current portion of long-term debt	5,453	4,266
Other accounts payable	369	468
Accrued expenses	3,599	4,840
Income taxes payable	9	7
Taxes and insurance withheld	72	20
Current portion of capital lease obligations	5,858	4,389
Current portion of installment obligations	1,160	1,403
Payable for fixed assets purchases	611	580
Consumption taxes payable	367	—
Stock purchase warrants	28	28
Other current liabilities	10	5
Long-Term Liabilities	**14,942**	**17,536**
Long-term debt	5,350	6,133
Capital lease obligations, less current portion	9,206	9,656
Installment obligations, less current portion	155	1,423
Long-term other payables	231	323
Total Liabilities	**33,238**	**37,096**
Shareholders' Equity		
Capital Shares	**13,670**	**10,528**
Capital Surplus	**14,230**	**9,253**
Retained Earnings	**(11,938)**	**(14,294)**
Total Shareholders' Equity	**15,962**	**5,486**
Total Liabilities and Shareholders' Equity	**49,201**	**42,582**

Statements of Operations

(¥ Millions)

	Year ended March 31, 2004	Year ended March 31, 2003
Revenue	**38,142**	**20,275**
Cost of revenue	24,855	16,699
Gross profit	**13,286**	**3,576**
Selling, general and administrative expenses	9,146	7,923
Operating profit (loss)	**4,139**	**(4,346)**
Other income	26	35
Other expenses	1,442	984
Recurring profit (loss)	**2,724**	**(5,295)**
Non-recurring loss	358	276
Income (loss) before income taxes	**2,365**	**(5,571)**
Income taxes	9	7
Net income (loss)	**2,356**	**(5,578)**
Reduction deficit from prior period	14,294	8,715
Deficit at end of period	**11,938**	**14,294**

Statements of Disposition of Deficit

(¥ Millions)

	As of June 29, 2004	As of June 25, 2003
Deficit at end of period	**11,938**	**14,294**
Deficit disposition		
Reduction of additional paid-in capital	11,938	—
Deficit to be carried forward to next period	**0**	**14,294**

Statements of Cash Flows

(¥ Millions)

	Year ended March 31, 2004	Year ended March 31, 2003
Net cash provided by operating activities	**12,732**	**1,612**
Net cash used in investing activities	**(4,053)**	**(9,952)**
Net cash provided by (used in) financing activities	**(1,693)**	**8,112**
Net change in cash and cash equivalents	**6,985**	**(227)**
Cash and cash equivalents at beginning of period	**11,410**	**11,638**
Cash and cash equivalents at end of period	**18,396**	**11,410**

Corporate Data
(As of March 31, 2004)

eAccess Ltd.

Established	November 1, 1999
Capital	¥13.6 billion
Headquarters	33 Mori Bldg., 8-21, Toranomon 3-chome, Minato-ku, Tokyo 105-0001
Number of Employees	265
Business Focus	Broadband IP communication services

Directors and Auditors (As of June 29, 2004)

Representative Director and CEO	Sachio Semmoto
Representative Director and COO	Haruo Taneno
Representative Director and CFO	Eric Gan
External Directors	William Kennard
External Directors	Paul Reynolds
External Directors	Raymond Kwok
External Directors	Toru Hashimoto
External Directors	Morihiko Tashiro
External Directors	Toshio Yasui
External Directors	Jiro Kokuryo
Full-Time Corporate Auditor	Yukio Goto
Corporate Auditor	Koichiro Nakamoto
Corporate Auditor	Motohide Nishimura

Share Information
(As of March 31, 2004)

Number of shares authorized	521,607
Number of shares issued	257,464
Number of shareholders	8,670

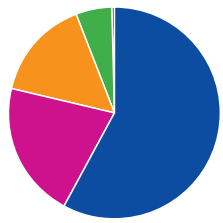
Principal Shareholders (Top 10)

Name	Number of shares	Voting right ratio (%)
1. Japan Telecom Co., Ltd.	33,334	12.95
2. Sachio Semmoto	18,879	7.33
3. Eric Gan	18,830	7.31
4. Morgan Stanley and Company International Limited	16,765	6.51
5. Nomura International (Hong Kong) Limited, Account F5108	12,250	4.76
6. Carlyle Asia Venture Partners I, L.P.	10,858	4.22
7. The Bank of New York Company, Inc. for Goldman Sachs International Equity	7,571	2.94
8. eAccess Holdings LLC	7,500	2.91
9. Nomura Singapore Limited, Account Nominee FJ205, Account FJ205	7,005	2.72
10. J.P. Morgan Chase & Co., CREF Jasdec lending account	6,540	2.54

Share Distribution

Number of Shareholders

- Foreign institutions and investors 148,974 shares (57.9%)
- Individuals and others 53,460 shares (20.8%)
- Corporations 39,641 shares (15.4%)
- Financial institutions 14,219 shares (5.5%)
- Securities companies 1,170 shares (0.4%)



Memorandum for Shareholders

Fiscal year-end	March 31
General shareholders' meeting	June
Date of record	March 31

Transfer of Shares

Transfer administration office	The Mitsubishi Trust and Banking Corporation Stock Transfer Agency Division 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Transfer agent	The Mitsubishi Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Transfer agency offices	The Mitsubishi Trust and Banking Corporation Head office and branches throughout Japan
Notices appear in	Nihon Keizai Shimbun

Mission Statement

"A new and more efficient broadband life for all."

Our mission is to maximize the value of customers' lives and businesses by providing innovative broadband services that meet emerging needs.

Guiding Principles to Realize the Mission Statement

- To place top priority on customers
- To provide high-quality services that will become the defacto standard and choice of customers
- To create and promote "win-win" business partnerships
- To aggressively and efficiently carry out business plans to maximize the value of the company
- To create an environment where employees take pride in working for an innovative telecommunications carrier that relentlessly strives for a higher standard

http://www.eaccess.net/ir/index.html

eAccess Ltd.

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