T-Gaia Corporation
3738 Tokyo Stock Exchange
First Section

19-Dec.-14

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Industry's Top Share as a Primary Mobile Phone Distributor

T-Gaia (3738) is one of Japan's leading primary mobile phone distributors, with a market share of approximately 13% for domestic mobile phone sales. The Company had 2,254 sales bases as of September 30, 2014, including agents' shops operated by its secondary distributors. T-Gaia also runs a solutions business for corporate clients and a prepaid settlement service business involving Amazon, BitCash and others.

On November 11, T-Gaia announced its consolidated financial results for 1H FY3/15 (April to September 2014). Net sales decreased 13.8% year on year to ¥287,348mn and operating income declined 4.4% to ¥5,869mn for 1H FY3/15. Although the Company did not disclose its forecasts for 1H FY3/15, the results seems to have surpassed their target. The core Mobile Telecommunications Business was sluggish in 1Q FY3/15 (April to June), but sales rebounded due to the introduction of new phone charge plans from 2Q FY3/15 (July to September 2014). Combined with contributions from the launch of iPhone 6 in September, and other new Android models, T-Gaia posted higher earnings on higher sales in 2Q FY3/15. Meanwhile, the Solutions Business saw steady growth in solution services for corporate clients. The Settlement Services Business and Other Business posted lower earnings on lower sales year on year. This partly reflected changes in sales channels for certain products and investment in the overseas business, as well as a shift in demand from merchandise purchased using PIN (Personal Identification Number)-products to gift cards.

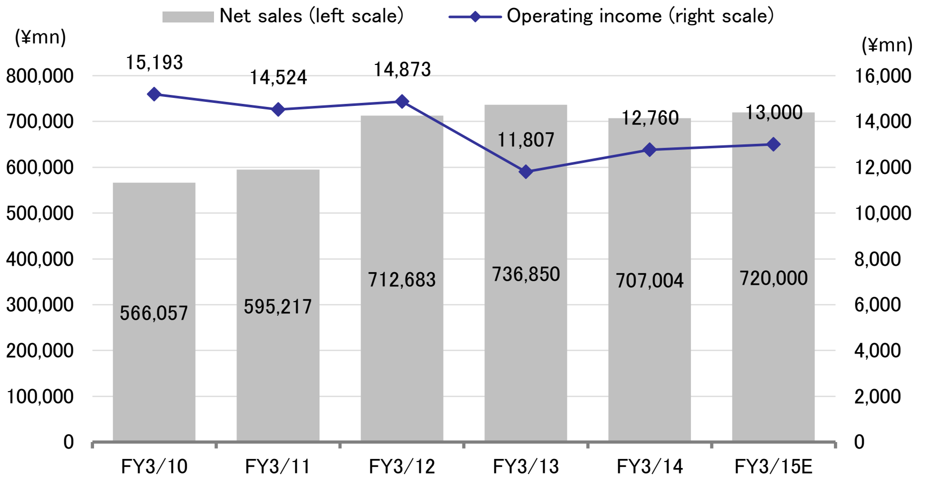
Turning to full-year forecasts for FY3/15, T-Gaia has maintained its initial forecasts, with net sales projected to increase 1.8% year on year to ¥720,000mn and operating income projected to increase 1.9% to ¥13,000mn. Amid a slight decrease in the number of mobile phones sold the Company will strive to improve the quality of operations at its carrier shops and enhance customer satisfaction through the "TG Academy," while T-Gaia working to expand sales of related products such as tablet computers and accessories for smart device. Furthermore, T-Gaia plans to proactively implement shop relocations, renovations and other measures designed to make shops larger and to project a clear shop concept in line with the needs of each sales base. It also plans to continue rightsizing the number of sales bases in order to optimize sales channels.

In the Mobile Telecommunications Business, T-Gaia will work to expand its market share by differentiating itself from peer companies. This will be achieved by continuing to optimize sales channels and invest in shops as necessary. In addition, as smartphones come equipped with increasingly sophisticated functionality, T-Gaia will continue employee training aimed at enhancing their smartphone sales skills. Efforts will also be devoted to expanding operations in the Solutions Business and the Settlement Service Business, while enlarging its earnings base, with the aim of driving sustained growth over the medium and long terms. T-Gaia has announced a policy of returning profits to shareholders based on a dividend payout ratio target of 30% or more. Accordingly, T-Gaia plans to pay a dividend of ¥35.0 per share for FY3/15 (payout ratio: 33.2%), the same level as in the previous fiscal year.

Check Point

- The core Mobile Telecommunications Business has a stable earnings structure.
- Full-year financial forecasts are unchanged in light of an ongoing recovery in the business environment.
- T-Gaia offers strong prospects for dividend increases in step with earnings growth, based on a dividend payout ratio target of 30% or more.

Business Performance Trend



Corporate Outline

Japan's largest information and telecommunications equipment distributor, formed through a merger of two companies affiliated with major trading companies

(1) Corporate history

T-Gaia was formed in October 2008 through the merger of the former MS Communications Company, Limited (affiliated with Sumitomo Corporation (8053) and Mitsubishi Corporation (8058)) and the former Telepark Corporation (affiliated with MITSUI & CO., LTD. (8031)). As a result of this merger, T-Gaia became Japan's largest information and telecommunications equipment distributor centered on mobile phone sales and agency operations.

The history of the Company after the merger is shown in the table below. In August 2010, T-Gaia concluded an agency agreement with the leading Chinese telecommunications carrier China Unicom, and began conducting sales agency operations for China Unicom in Shanghai. Moreover, T-Gaia is vigorously expanding business as a leading company in the mobile phone sales industry. For example, with in-shop customer service skills such as the ability to explain products and phone charge plans becoming more important than ever due to the wide spread of smartphones, T-Gaia opened the TG Academy, an in-house training/educational institution, in April 2012, for the purpose of improving the level of sales skills and customer services of its sales staff. Other measures have included the opening of smartphone accessory shops in November 2012.

For the Settlement Services Business and Other Business, T-Gaia started with sales of prepaid mobile phones at convenience stores. The Company had been developing settlement services using PIN codes (identification numbers linked to monetary amounts) as its mainstay product. However, T-Gaia has begun selling gift cards with the launch in November 2012 of the Gift Card Mall Business, which handles real cards, and the establishment of a subsidiary to conduct gift card sales in Singapore in November 2013. Additionally, in anticipation of growing needs for cloud-based services, T-Gaia acquired WAM!NET Japan K.K., a provider of cloud-based large-volume data transmission services, in March 2013. It became a consolidated subsidiary (equity interest: 63.5%) to expand the Solutions Business for corporate clients.

T-Gaia has four consolidated subsidiaries: mobile phone distributors TG Miyazaki, T-GAIA (SHANGHAI) CORPORATION and WAM!NET Japan, and another company.

Corporate History

Month / year	Main events
Oct. 2008	T-Gaia Corporation was founded through the equal merger of MS Communications Company, Limited and Telepark Corporation.
Aug. 2010	Concluded an agency agreement with Chinese telecommunications carrier China Unicom and established overseas subsidiary T-GAIA (SHANGHAI) in Shanghai.
June 2011	Started the Card Mall Business utilizing gift cards.
April 2012	Opened TG Academy, an in-house training/educational institute.
Nov. 2012	Started the deployment of smartphone accessory shops under the brand name of “Smart Labo.”
Nov. 2013	Established subsidiary Advanced Star Link Pte. Ltd. for the purpose of selling gift cards in Singapore.
Mar. 2014	Acquired 63.5% of the issued shares of WAM!NET Japan and made the Company a consolidated subsidiary.

The core Mobile Telecommunications Business Has a Stable Earnings Structure

(2) Business Overview

T-Gaia has three business segments: the Mobile Telecommunications Business, which mainly conducts sales of mobile phones and other related products to consumers, along with agency operations; the Solutions Business, which serves corporate customers through the sale of mobile phones and other related products, the provision of solution services, and contract agency operations for optical fiber services; and the Settlement Service Business and Other Business, which consists of the sale of electronic-money based merchandise, comprising online settlement methods such as PIN and gift cards, that have had a rapid increase in users in recent years, plus the overseas business. The graph below shows that the Mobile Telecommunications Business accounts for approximately 80% of net sales and approximately 70% of operating income, making it the Company’s core business. The following is an overview of each business segment.

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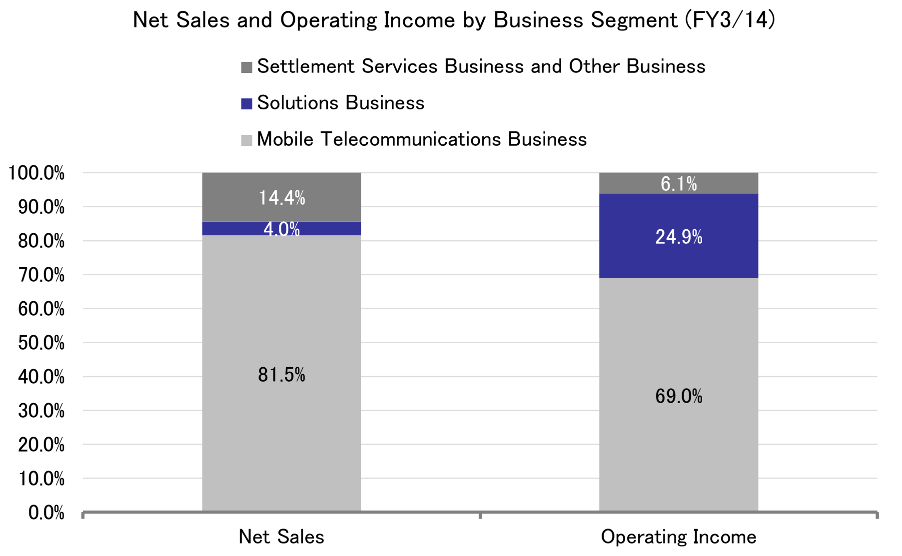
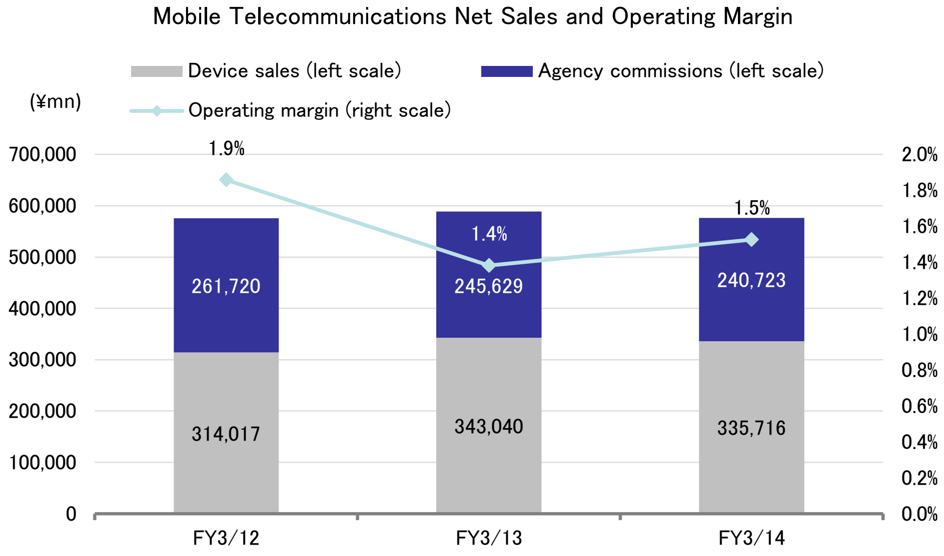


Mobile Telecommunications Business

The Mobile Telecommunications Business, the core business of T-Gaia, primarily consists of contract agency operations for mobile phone careers and other telecommunications services and device sales to consumers. Contract agency operations for telecommunication services are based on a business model that commissions are received as reward for making contracts with, device sales and ongoing services to customers based on agency agreements concluded with NTT DOCOMO (9437), the KDDI Group (9433), the SoftBank Group (9984) and other telecommunication carriers. Commission rates, the commission payment period and other parameters are defined by the agency agreements with carriers. For this reason, this segment has an earnings structure that is not swayed solely by mobile phone sales. In this sense, it is stable stock- type of business with recurring revenues from an established customer base.

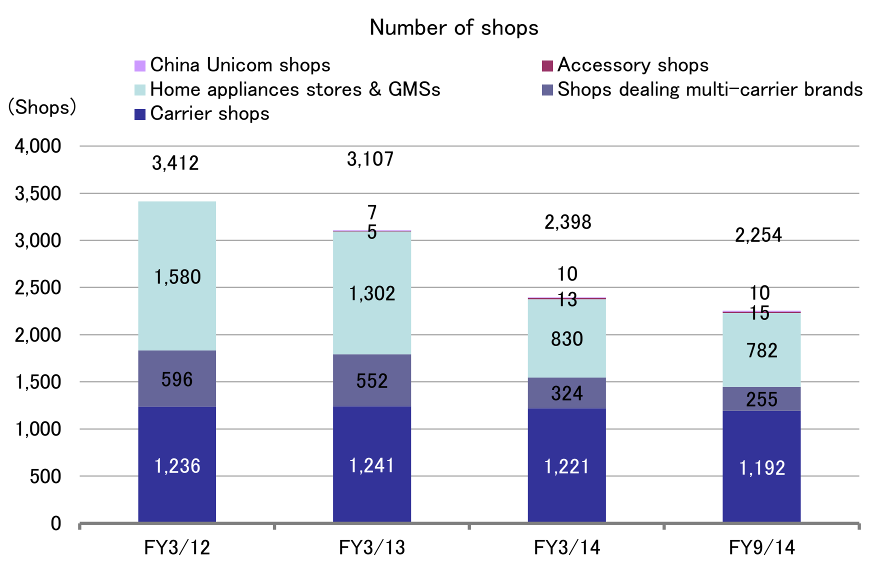
With regard to the sale of smart devices such as mobile phones, T-Gaia purchases the merchandise from various carriers and sells to customers via its directly managed shops. In addition, T-Gaia wholesales mobile phones to the Group's agency distributors, as well as home electric appliance stores and general merchandise stores. T-Gaia also procures various accessory products from manufacturers and trading companies and directly sells these products, mainly through directly managed accessory shops and carrier shops. The Company also wholesales accessories through its agency channel.

Net sales in the Mobile Telecommunications Business are divided into agency commission revenue from carriers and device sales. In terms of the sales mix, device sales revenue represents approximately 58% of the whole.



As of September 2014, the number of sales bases was 2,254, including its agency distributors, with a nationwide network stretching across the breadth of Japan from Hokkaido in the north to Okinawa in the south. These shops consisted of 1,192 carrier shops, 255 shops dealing multi-carrier brands, 782 home appliance stores and GMSs, and 15 accessory shops as well as 10 China Unicom shops in China. T-Gaia has the industry's largest number of sales bases in Japan. The profit and loss items of the China business are included in the Settlement Services Business and Other Business.

The graph below shows that the number of sales bases has been decreasing in the past few years. In the past, sales staff needed to explain the product features of mobile phones to customers in order to sell them. However, with the rapid spread of smartphones in recent years, the knowledge and sales skills required for shop staff have become even more specialized and advanced, driving the reorganization of sales channels. This has resulted in the recent decline in shop numbers. T-Gaia has rightsized the number of sales bases through its sales channel optimization based on the profitability, which is improving as a result. As of September 30, 2014, T-Gaia had 279 directly managed shops.



The number of mobile phones sold by T-Gaia in Japan was 5.6 million units in FY3/14, representing the industry's top share of around 13%. In the past few years, the sales agency industry has been reshuffled by major players to reorganize and consolidate sales agencies. This industry consolidation could continue due to M&As and other actions going forward. In terms of sales volume, T-Gaia is followed by CONEXIO Corporation (9422), which sold just over 3 million units in FY3/14, along with other companies. CONEXIO, T-Gaia's competitor, mainly sells NTT DOCOMO devices, while HIKARI TSUSHIN, INC. and Bell-Park Co., Ltd. mainly sell SoftBank devices. In contrast, one defining feature of T-Gaia is that it conducts well-balanced sales of the devices of major carriers NTT DOCOMO, au, and SoftBank.

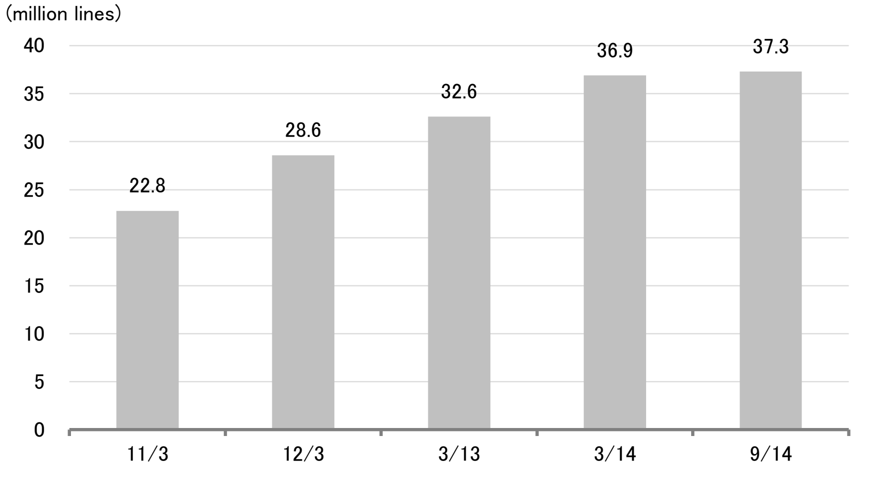
Synergies from Consolidation of WAM!NET Japan in the Solutions Business

Solutions Business

The Solutions Business includes solution services for corporate clients such as sales of mobile phones and solutions services such as terminal and line management services; optical fiber agency services, such as FTTH for both corporations and consumers; and high volume data transmission services utilizing the cloud infrastructure of WAM!NET Japan, which became a subsidiary in March 2014.

Among these services, the sales of mobile phones follow more or less the same business model as the Mobile Telecommunications Business. The terminal and line management services provide usage management, charge settlement, payment agency and other services related to various telecommunication devices used by corporate clients, such as smartphones and tablets. These solution services are bundled into the "movino star" application service provider (ASP) managed service provided by the Company. The number of movino star subscriber lines has steadily expanded, reaching 373,000 as of September 2014.

Number of movino star subscriber lines



The Company also provides T-GAIA Smart SUPPORT as total solution package services including Mobile Device Management (MDM) services relating to integrated management of mobile device configuration settings and information to security measures to deal with matters such as theft or loss of devices, kitting services (services to perform initial setup so that devices can be used immediately after purchase), help desk and security desk services, and movino star services.

The services provided by WAM!NET Japan are cloud computing services for safe transmission, sharing and storage of large volumes of data within and outside its corporate clients. The mainstay service in this lineup is GigaCC, which had the top share of sales in FY3/14 for the physical storage-type online file-sharing market within the online file-sharing market. This service has been widely adopted among mainly medium- and large-scale enterprises in Japan as a tool to safely and securely transfer and share files between companies.

Anticipated synergy effects from the consolidation of WAM!NET Japan include mutual utilization of both companies' customer bases, package sales of mobile devices and cloud services, and development and sales of WAM!NET Japan's proprietary package products, and enhancement of sales and support capabilities through personnel exchange.

Distribution of Electronic Money-Based Merchandise and Gift Cards in the Settlement Services Business and Other Business

Settlement Services Business and Other Business

The Settlement Services Business involves sales of electronic money-based merchandise and gift cards using PIN sales systems* through major convenience stores and other retail outlets throughout Japan. Currently, the business has about 51,000 sales bases in Japan for PIN and gift cards combined, with about 620 additional bases in Singapore. The merchandise handled includes Amazon and BitCash gift cards, as well as WebMony and Visa branded V-preca cards in PIN merchandise.

* PIN (Personal Identification Number) sales system: An electronic payment system enabling online purchases without using a credit card simply by entering a PIN.

The method of recording net sales differs for gift cards and PIN merchandise. For gift cards, the Company records only the commission received from the operator as net sales, while for PIN merchandise the total transaction amount (face value amount) is recorded as net sales.

Other Businesses include overseas businesses such as operation of China Unicom shops based on an agency agreement with major Chinese telecommunications carrier China Unicom, solution services for Japanese companies in Shanghai, and gift card sales operations in Singapore.

Financial results trends

Performance May Have Surpassed Its Internal Target Despite Lower 1H FY3/15 Sales and Earnings

(1) 1H FY3/15 Results

The consolidated financial results for 1H FY3/15 (April to September 2014) were announced on November 11. Net sales were ¥287,348mn, down 13.8% year on year, operating income was ¥5,869mn, down 4.4%, ordinary income was ¥5,838mn, down 4.6%, and net income for the quarter was ¥3,187mn, down 6.4%. Although the Company did not disclose its forecasts for 1H FY3/15, performance seems to have surpassed its internal forecasts.

The Mobile Telecommunications Business recorded sales revenues of ¥231,363mn, down 12.6% year on year, and operating income of ¥4,333mn, up 5.1%. While 1Q saw weak unit sales of mobile phones in a fallback from a surge in demand in 4Q FY3/14 associated with changes in sales promotion measures by telecommunications carriers, 2Q FY3/15 sales revenues were strong with unit sales recovering from 2Q FY3/15 as the main telecommunications carriers completed the roll-out of their new phone charge plans, and with a contribution from the effect of the launch of iPhone 6 in September. Moreover, sales volume of tablets increased 1.5 times year on year, while sales revenues from smartphone accessories and other related merchandise expanded steadily by 1.2 times year on year.

Sales revenues in the Solutions Business were ¥13,274mn, down 8.1% year on year, and operating income was ¥1,284mn, down 10.5%. The number of mobile phones sold to corporate clients declined 12.5% to 91,000 due in part to a fallback from a large order recorded in FY3/14. However, solution services such as kitting services and help desk services performed strongly. Meanwhile, sales of fixed-line related merchandise such as FTTH continued to slump from 1Q due to harsher competition from mobile broadband and other factors. Moreover, while the effect of the contribution of WAM!NET Japan's financial results on the whole company was limited, it appears to have had a positive effect on earnings, even incorporating the impact of goodwill expenses.

Sales revenues in the Settlement Services Business and Other Business decreased 21.4% year on year to ¥42,710mn and operating income was ¥252mn, down 56.5%. The Settlement Services Business saw a drop in sales revenues due to a shift in demand from PIN merchandise, where the face value amount is recorded as sales revenues, to gift cards, where only the received commission is recorded as sales revenues. Another factor was a decline in the handling of certain merchandise. There was a steady increase in the number of shops handling merchandise, primarily leading convenience stores, with the store count reaching about 51,000 combining both PIN merchandise and gift cards. Upfront investment outlays for business expansion in China and Singapore, among other factors, had a negative impact on earnings.

Full-Year Forecasts Unchanged in Light of an Improving Business Environment

(2) Financial forecasts for FY3/15

Looking at consolidated financial forecasts for FY3/15, T-Gaia has not changed its initial forecasts. Net sales are forecast at ¥720,000mn, an increase of 1.8% year on year. Operating income is projected at ¥13,000mn, an increase of 1.9%, and ordinary income is projected at ¥12,800mn, up 1.1%. Net income for the year is forecast to increase 6.1% to ¥7,250mn.

By business segment, the Mobile Telecommunications Business expects sales revenues of ¥571,000mn, mostly unchanged year on year, and operating income of ¥8,600mn, down 2.3%. Although unit mobile phone sales are projected to decrease by 130,000 year on year to 5.25 million units, sales revenues should remain mostly flat from the same period last year based on stronger sales of tablets, accessories and other related products. In addition, T-Gaia expects to maintain an operating margin of more than 2% by rigorously improving operating efficiency and controlling costs.

The Solutions Business sales revenues are forecast to increase 1.6% year on year to ¥29,000mn, and operating income is forecast to rise 2.1% year on year to ¥3,250mn. T-Gaia will work to increase sales from mobile solutions and the cloud-based services of WAM!NET Japan, in addition to boosting sales of smartphones and tablets to corporate clients. T-Gaia seeks to drive growth as a solutions provider that supports productivity improvements at its client companies through the use of smart devices.

The Settlement Services Business and Other Business sales revenues are forecast at ¥120,000mn, up 17.6% year on year, and operating income is forecast at ¥1,150mn, up 47.8%.

As for the overseas business, T-Gaia aims to drive sales growth at sales bases backed by the start of 4G services and the launch of iPhone 6 in China. The Company operates China Unicom shops that are able to fulfill demand from foreign customers, as shops are staffed with multi-lingual personnel who can speak not only Japanese and Chinese, but also Korean, English and other languages. Efforts are also focused on bolstering the support framework for line management solution services for Japanese companies in Shanghai.

With regard to gift card sales in Singapore, T-Gaia is working to upgrade and expand merchandise handled, with plans to further increase the number of participating stores. Gift cards appear to be selling at a higher unit price than in Japan, marking a steady start to this business.

T-Gaia will promote a scrap-and-build drive eyeing the current 10-shop network in the Chinese mobile phone sales business. Going forward, the Company aims to become profitable in the overseas business overall as quickly as possible.

Segment Operating Results Trend

(¥mn)

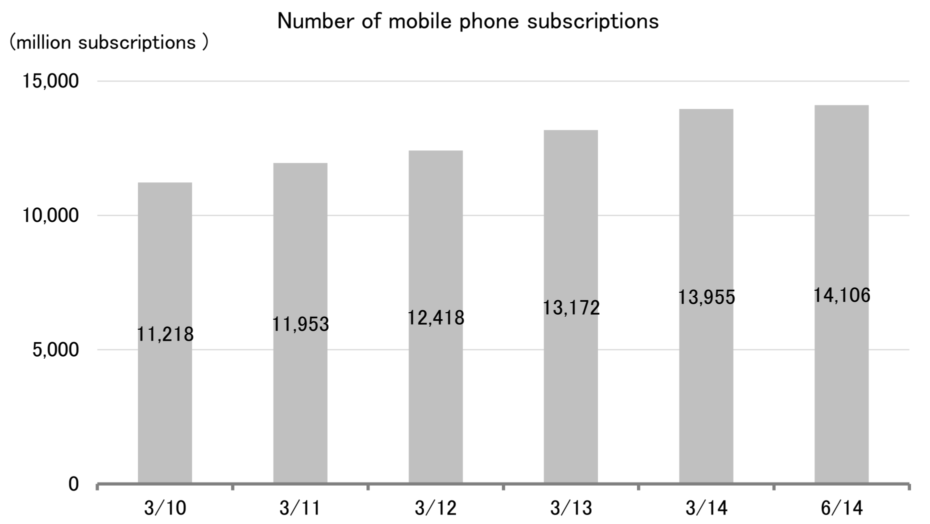
	FY3/12	FY3/13	FY3/14	FY3/15 (est.)	Growth rate
Segment sales revenues					
Mobile Telecommunications Business	568,793	588,670	576,439	571,000	-0.9%
Solutions Business	26,902	27,043	28,549	29,000	1.6%
Settlement Services Business and Other Business	116,987	121,136	102,014	120,000	17.6%
Total	712,683	736,850	707,004	720,000	1.8%
Segment operating income					
Mobile Telecommunications Business	10,569	8,137	8,799	8,600	-2.3%
Solutions Business	3,054	2,560	3,182	3,250	2.1%
Settlement Services Business and Other Business	1,249	1,109	778	1,150	47.8%
Total	14,873	11,087	12,760	13,000	1.9%
Segment operating margin					
Mobile Telecommunications Business	1.9%	1.4%	1.5%	1.5%	
Solutions Business	11.4%	9.5%	11.1%	11.2%	
Settlement Services Business and Other Business	1.1%	0.9%	0.8%	1.0%	
Total	2.1%	1.5%	1.8%	1.8%	

Trends in the domestic mobile phone market

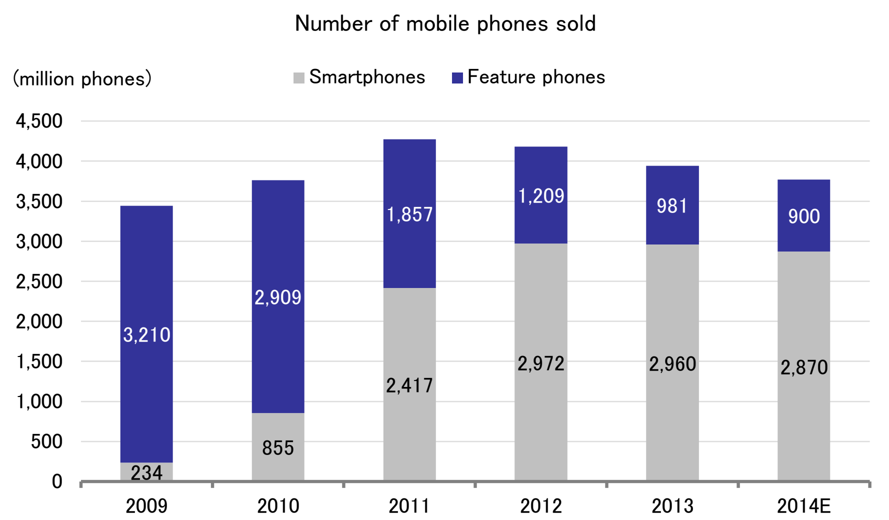
The number of domestic mobile phone subscriptions was 142,930,000 as of September 30, 2014, indicating that the mobile phone penetration rate has already surpassed 100% of Japan's population. Even so, the number of mobile phone subscriptions continues to grow. This can be put down to increases in corporate demand and the number of owners of multiple devices, including tablets. Notably, the ratio of cumulative smartphone subscriptions to all mobile phone subscriptions has been increasing year after year, surpassing 50% as of September 30, 2014, with the ratio projected to climb up to around 60% in the near future. Amid an ongoing decline in the number of feature phones sold, smartphone have trended mostly flat at around 30 million units sold on an annual shipment basis.

SIM lock removal is planned to become mandatory from FY3/16. SIM lock removal means that a mobile device purchased by a consumer can be used with a SIM card (an IC card that contains personal information such as telephone number) issued by any other carriers. When SIM lock removal becomes mandatory for all devices, consumers will no longer need to replace their devices when switching carriers. This could have a negative impact on replacement demand. SIM lock removal will prevent carriers from developing a captive user base and make it difficult for them to collect sales incentives. For this reason, SIM lock removal is likely to push up the retail prices of mobile devices. On the other hand, carriers are looking into continuing the current practice of providing two-year fixed contracts (phone charge plans that provide a discounted retail phone price for two-year or longer contracts), among other plans. Accordingly, when SIM lock removal becomes mandatory, it is likely to have only a limited impact on the number of mobile devices sold.

Furthermore, the ban on wholesaling of optical fiber lines by NTT will be removed, with plans for NTT East and NTT West to initiate wholesaling within 2014. au has already introduced package discounts bundling KDDI optical fiber lines, mobile phones, cable TV and other services. NTT DOCOMO will also be able to introduce these sorts of services. DOCOMO shops account for 282 (including 171 directly managed shops) of T-Gaia's 2,254 shops. When packaged sales of optical fiber lines become possible at these shops, T-Gaia can be expected to see an increase in commission revenues.



Source: Telecommunications Carriers Association



Source: MM Research Institute

Strengthening shop earnings through the TG Academy

The Company perceives the changes in the market environment as business opportunities. Its policy is to strengthen its 2,254 sales bases while aiming for further growth. Sales staff are required have more knowledge than previously in order to cope with higher functionality in smartphones, discount sales for tablet and optical fiber bundles, and so forth. The Company therefore sees upskilling of individual sales staff as the key to increasing shop profitability.

One of the Company's strategies to differentiate itself from competitors is to improve service quality by implementing enhanced training and education programs at the TG Academy training and education institute, which opened in April 2012. The TG Academy initiatives are also intended to improve sales staff retention rates and help to increase their earning capabilities. Recently, the length of time spent serving each customer has increased due to the need to explain how to use smartphones, initial settings, relevant apps, and so forth, as well as an increase in the amount of required information. This had caused the sales staff turnover rate to increase before the establishment of the TG Academy. Lowering the turnover rate could have a significant effect on lifting shop productivity. Currently, there are more than 5,000 sales staff, and improving the retention rate alone could help to control costs related to hiring, as well as education and training.

The TG Academy has developed around 280 specialist trainers and has already achieved a framework of one trainer per shop for its directly operated shops. The training is a systemized program specific to experience and work position after joining the Company. The training covers basic product knowledge through to the customer service manual, and acquisition of expertise in proposing merchandise to meet customers' needs, including related products. The Company plans to continue promoting higher service quality through the TG Academy, not only at directly operated shops, but also at the TG Group's agents' shops.

Strengthening the lineup of smartphone accessories

With the spread of smartphones, the smartphone accessories market is continuously expanding. The Company has responded by launching its Smart Labo accessory shops in November 2012. It currently runs 15 shops including an e-commerce website and AppBank Store outlets, which will be discussed below, and plans to expand this network to more than 20 in the near future. Furthermore, the e-commerce (EC) website "Smart Labo Online" opened April as part of the Company's promotion of an omni-channel strategy. In other initiatives, the Company has opened specialized accessory shops mainly offering Apple-related products called AppBank Stores, which it jointly manages with AppBank Store, in Tokyo's Shinjuku and Harajuku wards.

Sales from accessory shops currently account for around 10% of accessory sales for the entire company, and some shops have yet to turn a profit. Nevertheless, this segment is expected to grow.

Solution Business

The Company will meet a certain level of stable demand for feature phones, which have simple functions, and will develop solution services, including the introduction of tablets such as iPad. For corporate clients, use of smart devices such as smartphone and tablets can often lead to improved productivity, and demand for smart devices is expected to expand going forward.

The Company has strengths in its ability to propose a rich service line-up including sales of devices bundled with lines, Wi-Fi-only models, and kitting services. When the services were initially launched, the majority of customers were group companies of trading companies, which were its major shareholders, but recently the Company has been developing customers among SMEs and so forth, thereby providing services to a wide-ranging customer base.

Settlement Services Business

The Company expects expansion of the e-commerce market as well as steady demand for gift cards of major operators such as Amazon and BitCash, and PIN merchandise, for users who cannot use credit cards as a method for settling payments, or who do not wish to input their credit card information on the Internet. The Company has therefore adopted a policy of expanding its network of stores dealing in this merchandise beyond convenience stores.

M&A Strategy

The mobile phone sales industry has seen an ongoing movement towards consolidation by major companies for the past few years. Looking ahead, the spread of smartphones is expected to increase the service load on front-line sales staff and the increase in handset prices is expected to create a funding burden. As a result, the existing 420 distribution companies in Japan (primary distributors) is highly likely to undergo consolidation and reorganization, and as an industry frontrunner T-Gaia's policy is to take a positive stance on considering M&As that have potential synergies or investment value. The Company's current market share is 13%, and it is aiming to increase this share going forward.

Financial status and shareholder return policy

Aiming to Reduce Interest-Bearing Debt and Build a Lean Financial Structure

Financial status

As at September 30, 2014, total assets were ¥148,519mn, down ¥51,112mn from March 31, 2014. On its consolidated balance sheet, trade receivables decreased ¥30,287mn from March 31, 2014, while merchandise inventory decreased ¥13,596mn and other accounts receivable decreased ¥5,288mn. As for fixed assets, goodwill decreased ¥803mn. The majority of these decreases were seasonal, and in previous years, trade receivable, merchandise inventory and other accounts receivable tend to be high at the end of March due to a concentration of sales at this time. Incidentally, compared to September 30, 2013, total current assets increased ¥3,740mn. Although merchandise inventory decreased ¥7,463mn year on year, accounts receivable were up ¥5,734mn and accrued income increased ¥6,140mn. This was mainly due to the surge in sales of iPhone 6 up to the end of September.

In the same way, consolidated total liabilities also decreased from March 31, by ¥53,158mn to ¥122,759mn. The decrease mainly reflects a fall in interest-bearing debt of ¥30,350mn, and a decrease in trade payables of ¥17,148mn. Compared to September 30, 2013, consolidated total liabilities increased ¥8,097mn, including year-on-year increases of ¥5,912mn in accounts trade payables and ¥5,562mn accounts payable-other, as well as a decrease of ¥3,127mn in interest-bearing debt.

With regard to the major management indicators, the current ratio, equity ratio, and interest-bearing debt ratio, major indicators of stability, are on an improving trend. With an equity ratio of under 20% and an interest-bearing debt ratio of around 200%, the level of the interest bearing debt appears high. However, as noted above, financing needs hit its peak usually at the end of every March. As borrowings at the end of March are mainly for working capital, the level of debt should not be too high. In fact, the Company's financing expenses are around ¥200mn a year, which compared with the operating income of over ¥10,000mn a year would have a minimal impact on management. However, the Company's policy is to steadily reduce its level of interest-bearing debt in an effort to create a lean financial structure. At the same time, the Company intends to allocate extra cash from right-sizing inventories and increasing earnings and so forth into investments in shops, funding for new businesses, and investments in staff education.

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As for profitability indicators, ROE is high at over 20%, indicating a high level of capital efficiency. Looking ahead, improving the operating margin will be a focus for the management.

Consolidated balance sheet

(¥mn)

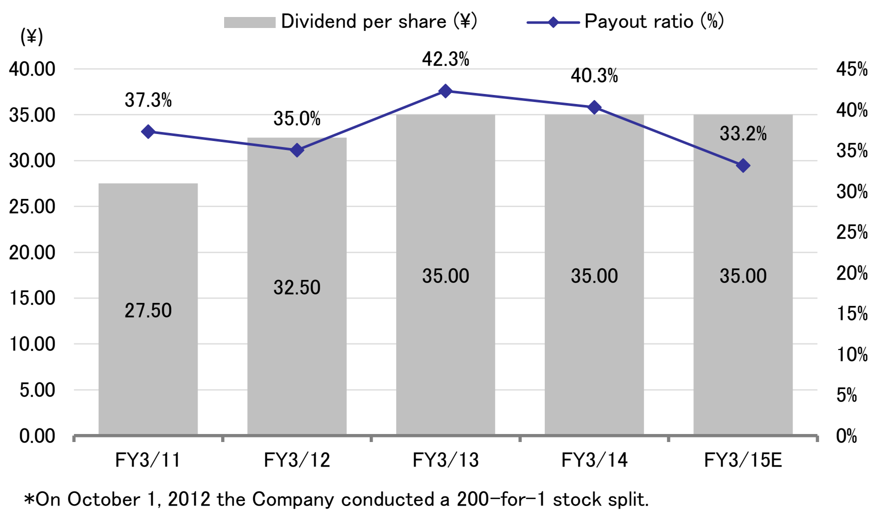
	FY12/3	FY13/3	FY14/3	2Q FY15/3	Changes
Current assets	189,867	184,875	183,266	132,727	-50,539
(Cash and deposits)	1,766	1,997	3,490	2,172	-1,318
(Merchandise inventory)	54,304	49,783	45,146	31,549	-13,596
Fixed assets	18,366	16,362	16,364	15,791	-573
Total assets	208,233	201,238	199,631	148,519	-51,112
Current liabilities	165,871	148,512	163,466	108,419	-55,047
Fixed liabilities	14,311	24,548	12,450	14,340	1,890
(Interest-bearing debt)	50,523	55,490	50,934	20,584	-30,350
Total liabilities	180,183	173,061	175,917	122,759	-53,158
Net assets	28,050	28,177	23,713	25,760	2,047
Total liabilities and net assets					
(Stability ratios)					
Current ratio (current assets / current liabilities)	114.5%	124.5%	112.1%	122.4%	
Equity ratio (shareholders' equity / total assets)	13.5%	14.0%	11.8%	17.2%	
Interest-bearing debt ratio (Interest-bearing debt / shareholders' equity)	180.1%	196.9%	215.9%	80.4%	
(Profitability ratios)					
ROA (ordinary income / total assets)	7.1%	5.7%	6.3%		
ROE (net income / shareholders' equity)	28.3%	23.4%	26.4%		
Operating income to sales ratio	2.1%	1.6%	1.8%		

Expecting an Increase in Dividend Following Increased Earnings for a Dividend Payout Ratio of Over 30%,

(2) Shareholder returns policy

The Company's shareholder returns policy is mainly to return profits to shareholders through dividends. Regarding the level of dividends, the Company's policy is to decide the level by aiming for a dividend payout ratio of over 30%, while retaining internal reserves needed for future business development and to strengthen the management base. For FY3/15, the Company plans to pay the same annual dividend as previously at ¥35.0 (dividend payout ratio of 33.2%), and the dividend is expected to increase going forward in step with expansion of earnings.

Dividend per share and dividend payout ratio



*On October 1, 2012 the Company conducted a 200-for-1 stock split.

Consolidated statement of income

(¥mn, %)

	FY11/3	FY12/3	FY13/3	FY14/3	FY15/3 (est.)
Net sales	595,217	712,683	736,850	707,004	720,000
(YOY)	5.2	19.7	3.4	-4.1	1.8
Cost of sales	533,933	646,859	670,169	643,694	655,000
(Ratio to net sales)	89.7	90.8	91.0	91.1	91.0
Selling, general and administrative expenses	46,759	50,950	54,873	50,550	52,000
(Ratio to net sales)	7.9	7.1	7.4	7.1	7.2
Operating income	14,524	14,873	11,807	12,760	13,000
(YOY)	-4.4	2.4	-20.6	8.1	1.9
(Ratio to net sales)	2.4	2.1	1.6	1.8	1.8
Non-operating income	71	178	135	122	-
Interest income, dividend income	6	7	8	7	-
Other	65	171	127	115	-
Non-operating expenses	200	207	250	217	-
Interest expenses,	170	197	230	198	-
Others	28	9	20	19	-
Ordinary income	14,395	14,843	11,691	12,665	12,800
(YOY)	-3.8	3.1	-21.2	8.3	1.1
(Ratio to net sales)	2.4	2.1	1.6	1.8	1.8
Extraordinary gains	79	10	6	106	-
Extraordinary losses	674	63	127	122	-
Net income before income taxes	13,801	14,790	11,570	12,649	-
(YOY)	-7.0	7.2	-21.8	9.3	-
(Ratio to net sales)	2.3	2.1	1.6	1.8	-
Income taxes-current	6,246	6,857	4,983	5,813	-
(Effective tax rate)	45.3	46.4	43.1	46.0	-
Net income	7,554	7,933	6,586	6,835	7,250
(YOY)	-7.1	5.0	-17.0	3.8	6.1
(Ratio to net sales)	1.3	1.1	0.9	1.0	1.0
Earnings per share (¥)	73.71	92.75	82.77	86.74	105.52
Dividend per share (¥)	27.5	32.5	35.0	35.0	35.0
Net assets per share (¥)	347.77	332.80	356.89	343.41	-
Dividend payout ratio (%)	37.3	35.0	42.3	40.3	33.2

Disclaimer