

MTI's Overwhelming Strength : Non-virtual Affiliate Network

MTI's non-virtual affiliate network is an effective means for content providers to gain paying smartphone subscribers. In this section, we explain how it works.



Coverage of **80%**
of mobile phone retail outlets
nationwide



Mobile phone retail outlets encourage customers to subscribe to internet services

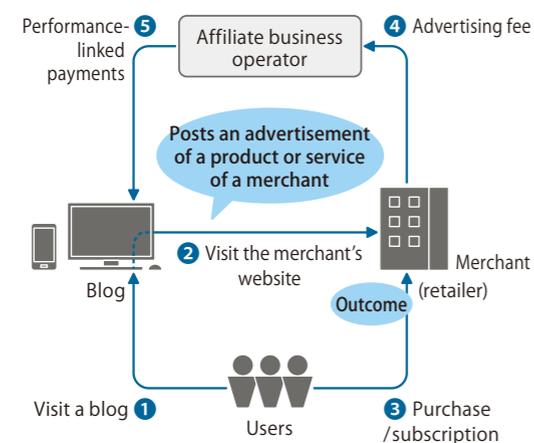


What is a conventional affiliate?

A performance-linked business

In conventional affiliate marketing, an affiliate posts an advertisement of a product or service of a merchant on its blog or other website and receives payments linked to a specified outcome (such as a user purchasing the advertised product).

Conventional affiliate (In the case of a blog)

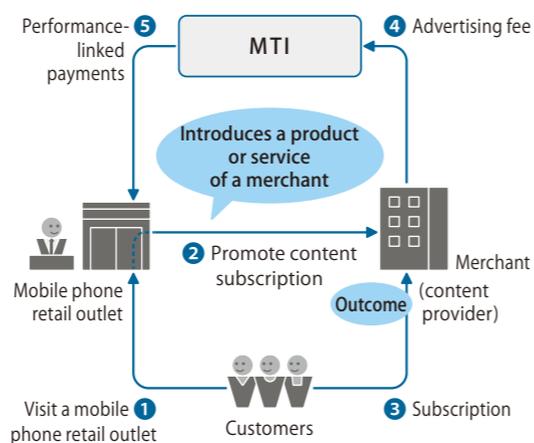


What is MTI's non-virtual affiliate network?

**Content promotion
by non-virtual affiliates**

MTI's system translates the online ad into the non-virtual setting of an actual retail outlet. Customers visiting stores sign up for smartphone content, creating a performance-linked payment for the outlet.

Non-virtual affiliate



Q1. What is MTI's non-virtual affiliate network?

A1. It consists of business relationships with 10,000 mobile phone stores across Japan.

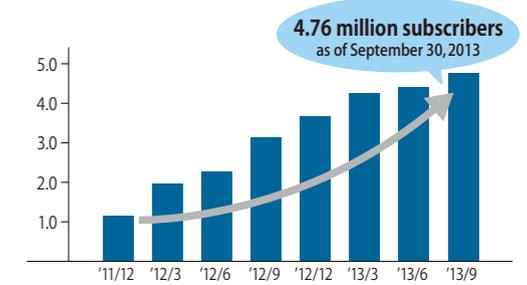
MTI has built business relationships with discount chains, mobile phone agencies and other companies operating shops around Japan. The network comprises around 10,000 outlets nationwide promoting content and services to smartphone users. We call it a "non-virtual affiliate network."

Q2. How has the non-virtual affiliate network benefited MTI's subscriber base?

A2. It has rapidly grown to 4.76 million smartphone subscribers.

The network is an effective means of directly promoting content supplied by MTI and other providers to smartphone users, despite restricted opportunities. With by far the largest non-virtual affiliate network, MTI has been able to rapidly grow its paying smartphone subscriber base to 4.76 million subscribers.

Paying smartphone subscribers (Millions of people)

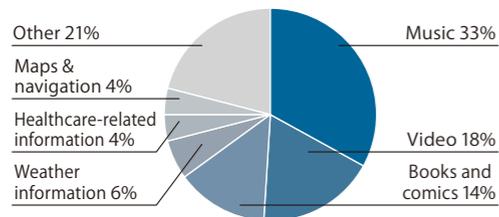


Q3. What content is available via the retail stores?

A3. Content includes music, video, books and comics.

MTI's non-virtual affiliate network of retail outlets offers users content across a range of categories, including music, video, books, comics and weather reports. This includes original MTI content (such as the music.jp site) and a wide range of third-party content.

Composition of categories of content offered

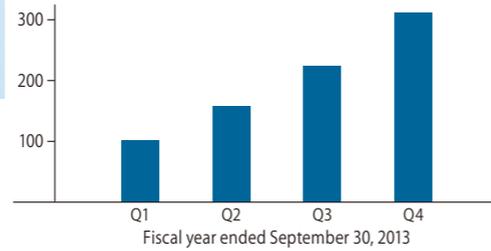


Q4. Why include access to third-party content?

A4. It boosts consolidated income from sales commissions.

The rapid adoption of smartphones in Japan left content providers with limited opportunities to build a subscriber base. Having received numerous inquiries, MTI began providing access to third-party content from the fiscal year ended September 30, 2013. Growth of this client base of third-party content providers has helped expand MTI's sales revenues from commissions, making a significant contribution to consolidated profits.

Impact of providing access to third-party content on sales revenues (Millions of yen)



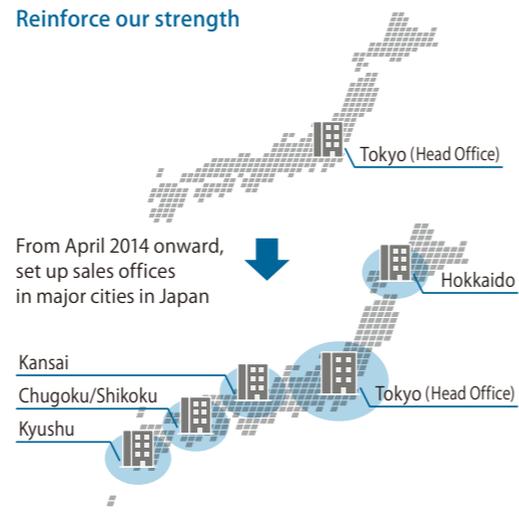
Q5. How is MTI developing the non-virtual affiliate network?

A5. The next step is to set up sales offices in Japan's major cities.

MTI plans to set up sales offices in Japan's major cities from the second half of the fiscal year ending September 30, 2014 to provide meticulous support to the affiliate network.

This move promises to help expand the number of retail outlets offering users content from MTI and third-party providers, while also increasing the rate at which users are signed up to content. This will help MTI to further expand its paying smartphone subscriber base at the same time as boosting the number of commission-generating new subscriptions for third-party content.

Reinforce our strength



Q6. How will new sales offices help the bottom line?

A6. They will be an effective way of increasing new subscriptions for both MTI and third-party content.

Simply having access to a network of 10,000 mobile phone retail outlets in Japan is not enough: ongoing follow-up is needed to ensure that content is promoted effectively to customers visiting each store so that subscriber bases continue to grow. Creating regional sales offices will increase opportunities to visit outlets and provide meticulous promotional support. This will increase the capacity of each outlet to generate business and increase sign-up rates for smartphone content subscriptions, helping to expand the subscriber base.

Since the outlets will be promoting content supplied by MTI and third-party providers, we expect this strategy to be effective for generating growth in subscriber bases on both sides.

Impact of opening sales offices



In-house content: More paying smartphone subscribers (Refer to A2.)
Third-party content: More sales commissions (Refer to A4.)

Number of new subscribers =

$$\text{Number of contracted cellphone shops} \times \text{Capacity utilization rate of each shop} \times \text{Number of visitors per shop} \times \text{subscriber ratio}^*1 \times \text{Number of content subscriptions}^*2$$

*1 Subscriber ratio: Number of content subscribers as % of the number of shop visitors (unique)
*2 Number of content subscriptions: Number of content subscriptions per content subscriber

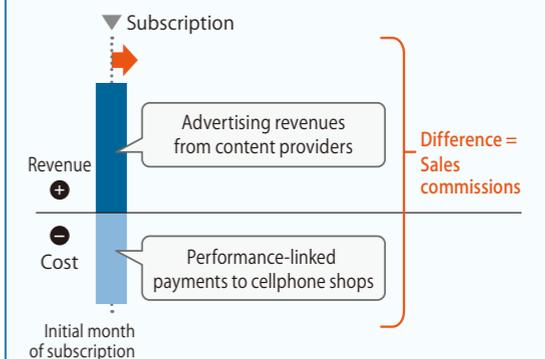
Income model

Difference between MTI and third-party content

The difference between in-house content and third-party content is that the providers of the latter are clients generating advertising revenue for MTI. We book as commission sales revenue the net amount after the deduction of the performance-linked payments made to the cellphone shops.

Sales of in-house content also lead to a performance-linked payment (an advertising expense), but this is recouped from the monthly subscriptions paid by the new user (booked as content sales).

Third-party content (non-virtual affiliate business)



In-house content (content distribution business)

