

Financial Result Presentation for FY2014 2Q

Summary of the main questions and answers

Here is a summary of the main questions and answers given at the financial result presentation for FY2014 2Q, held on May 9, 2014.

Q1. What are the factors for the decline in income in the second half compared to the first half?

A1. As we have left the full-year forecast for operating income and ordinary income unchanged, our results forecast for the second half turns out to be conservative, given the progress in the first half. Advertising expenses in the first half were approximately 4.1 billion yen. As for the quarterly breakdown, advertising expenses in the second half, which includes the most competitive sales period in March, were 2.4 billion yen, while those in the first quarter were 1.7 billion yen. We expect operating income in the second half to be 500 million yen on the assumption that the situation in the second quarter will continue and that we will use advertising expenses of 4.8 billion yen. Given that sales competition in the second half will not intensify beyond this assumption, operating income is unlikely to fall below 500 million yen.

Q2. You have established three new sales offices in the real affiliate network. Are you considering an expansion of sales offices in the future? What is your plan for future development?

A2. The effect of the establishment of sales offices has been confirmed by the preliminary figure for April. Since we know that the number of visits and the shop operation rate are proportional, we will positively consider an expansion of sales offices if a more discernable effect can be confirmed.

Q3. What is your approach for the shift from free services to pay services?

A3. As we know that the number of visits to *music.jp* (a pay service) while listening to *ListenRadio* (a free service) is overwhelmingly large in music-related services, we will continue to work on *ListenRadio* as a lead to *music.jp*. With respect to health-related services, we will focus on leads to the *LunaLuna Maternity*, a pay service, as the number of women hoping to become pregnant has been increasing recently.

Q4. What measures are you taking to boost your share price, and what is the possibility of higher dividends?

A4. We understand that we have caused our shareholders and investors concern about fluctuations in our share price. We are not considering a share buyback at this moment and intend to live up to the expectations of shareholders by strengthening our business performance. We are not currently planning a change to the amount of dividends.

Q5. How do you expect the business to perform in the next fiscal year?

A5. We will aim to increase sales and income in the next fiscal year, but business performance will basically depend on how many paying subscribers we can build up in the current fiscal year. Therefore, we will consider the numbers announced for our performance next fiscal year, taking into account trends in the number of paying subscribers in the second half.

Q6. The number of paying subscribers for smartphone services appears to have increased significantly in March. Was this proportional to sales trends in hardware (smartphones)? What is the impact of the backlash from April?

A6. The increase in the unit sales of smartphones is the key factor for the rise in the number of paying subscribers for smartphone services, and this is influenced by the cash-back campaign of carriers. The fact that the number of new members in March was three times that in April (preliminary figure) shows that the number of new members increased particularly strongly in March. As the number of new members in March has been conventionally about twice as many as that in April, we think that the backlash against the cash-back campaign was significant. However, the situation at the moment is strong based on the preliminary figure for Golden Week in May, and we think that the backlash is likely to be limited only to April. We think that the scheduled launch of new Android terminals and commencement of a new payment structure of NTT Docomo, among other factors, will lead to an increase in the number of new members in the future.