

Non-consolidated Financial Results for the First Quarter Ended June 30, 2013 [Japanese GAAP]



July 30, 2013

Company name: ITC NETWORKS CORPORATION Stock exchange listing: Tokyo Stock Exchange
 Stock code: 9422 URL: <http://www.itcnetwork.co.jp/index.html>
 Representative: (Title) President (Name) Hiroo Inoue
 Contact: (Title) General Manager, Corporate Planning (Name) Noriaki Kanno Phone: +81-3-5739-3702
 Scheduled date for filing of quarterly report: August 7, 2013
 Scheduled date of commencement of dividend payment: —
 Availability of supplementary briefing material on quarterly financial results: Available
 Schedule of briefing session on quarterly financial results: Not scheduled

(Figures are rounded down to the nearest million yen.)

1. Financial Results for the First Quarter of Fiscal Year Ending March 31, 2014 (from April 1, 2013 to June 30, 2013)

(1) Non-consolidated Operating Results (Cumulative) (% indicates rate of change from the previous corresponding period.)

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|-----------|-------------|-------|------------------|--------|-----------------|--------|-------------|--------|
| | million yen | % | million yen | % | million yen | % | million yen | % |
| 1Q FY2013 | 67,855 | 125.1 | 1,123 | 246.3 | 1,152 | 230.0 | 508 | 526.5 |
| 1Q FY2012 | 30,143 | 5.7 | 324 | (57.0) | 349 | (55.6) | 81 | (77.1) |

| | Earnings per share (EPS) | | Diluted EPS | |
|-----------|--------------------------|--|-------------|--|
| | yen | | yen | |
| 1Q FY2013 | 9.09 | | — | |
| 1Q FY2012 | 1.81 | | — | |

(2) Non-consolidated Financial Position

| | Total assets | | Net assets | | Equity ratio | |
|-----------|--------------|--|-------------|--|--------------|--|
| | million yen | | million yen | | % | |
| 1Q FY2013 | 82,263 | | 28,028 | | 34.1 | |
| FY2012 | 87,297 | | 28,262 | | 32.4 | |

(Reference) Equity: 1Q FY2013: 28,028 million yen FY2012: 28,262 million yen

2. Dividends

| | Annual dividends | | | | |
|------------------|------------------|--------|--------|----------|-------|
| | 1Q end | 2Q end | 3Q end | Year end | Total |
| FY2012 | — | 13.25 | — | 13.25 | 26.50 |
| FY2013 | — | — | — | — | — |
| FY2013(Forecast) | — | 15.75 | — | 15.75 | 31.50 |

(Note) Revision of recently-announced dividend forecast: None

3. Financial Forecast for Fiscal Year Ending March 31, 2014 (from April 1, 2013 to March 31, 2014)

(% indicates rate of change from the previous corresponding period.)

| | Net sales | | Operating income | | Ordinary income | | Net income | | EPS | |
|------------|-------------|-------|------------------|------|-----------------|------|-------------|------|-------|--|
| | million yen | % | million yen | % | million yen | % | million yen | % | yen | |
| First half | 140,000 | 102.0 | 3,000 | 55.6 | 3,000 | 51.9 | 1,650 | 70.9 | 29.50 | |
| Full year | 300,000 | 43.3 | 7,800 | 32.1 | 7,800 | 29.3 | 4,350 | 40.7 | 77.79 | |

(Note) Revision of recently-announced financial forecast: None

4. Others

- (1) Application of special accounting method for preparing quarterly non-consolidated financial statements: None
- (2) Changes in accounting policies, changes in accounting estimates and restatements
- (i) Changes in accounting policies due to revision of accounting standards, etc.: None
 - (ii) Changes in accounting policies other than (i) above: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatements: None

(3) Number of shares issued (common stock)

- (i) Number of shares issued as of the end of period (including treasury stock)
- (ii) Number of shares of treasury stock as of the end of period
- (iii) Average number of shares during the period (cumulative)

| | | | |
|-----------|-------------------|-----------|-------------------|
| 1Q FY2013 | 55,923,000 shares | FY2012 | 55,923,000 shares |
| 1Q FY2013 | 254 shares | FY2012 | 254 shares |
| 1Q FY2013 | 55,922,746 shares | 1Q FY2012 | 44,738,146 shares |

*** Indication of implementation status of quarterly review procedures**

- These quarterly non-consolidated financial results are outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act. At the time of disclosing this report, quarterly review procedures are being conducted with respect to the quarterly non-consolidated financial statements.

*** Explanation of appropriate use of financial forecasts and other special notes**

- Financial forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as at the time of preparing this report. The Company does not guarantee that any forecasts would be met. Actual results may vary significantly from the forecasts due to a wide range of factors. For information on assumptions of the financial forecasts and matters to be heeded upon using the financial forecasts, please refer to "Analysis of Financial Forecasts and Other Forward-Looking Information" on page 3 of the Appendix.

○Contents of Appendix

| | |
|--|---|
| 1. Qualitative Information on Quarterly Non-consolidated Financial Results | 2 |
| (1) Analysis of Operating Results | 2 |
| (2) Analysis of Financial Position..... | 2 |
| (3) Analysis of Financial Forecasts and Other Forward-Looking Information | 3 |
| 2. Summary Information (Notes)..... | 3 |
| (1) Changes in significant subsidiaries during the period | 3 |
| (2) Application of special accounting procedures in the preparation of quarterly financial statements..... | 3 |
| (3) Changes in accounting policies, changes in accounting estimates and restatements | 3 |
| 3. Quarterly Non-Consolidated Financial Statements | 4 |
| (1) Quarterly Non-Consolidated Balance Sheets | 4 |
| (2) Quarterly Non-Consolidated Statements of Income | 6 |
| (3) Notes on Going Concern Assumption | 7 |
| (4) Notes on Cases of Significant Changes in Shareholders' Equity..... | 7 |
| (5) Segment Information..... | 7 |
| 4. Supplementary Information | 8 |
| Status of Sales | 8 |

1. Qualitative Information on Quarterly Non-consolidated Financial Results

(1) Analysis of Operating Results

During the first quarter, the Japanese economy witnessed a depreciation of the yen and a recovery in share prices, as well as improvements in both business and consumer confidence, reflecting the sense of anticipation toward the economic measures of the new administration and the bold financial easing undertaken by the Bank of Japan. However, such improvements have had only limited impact on private sector capital investments and consumer spending, and uncertainty continued to prevail in the Japanese economy.

In the mobile phone market in which the Company conducts business activities, telecom carriers actively competed against each other to win over customers, and strong demand to replace feature phones with smartphones resulted in steady increases in the number of units sold.

In such a business climate, the Company, following the merger conducted in the previous year, determined upon careful deliberation a corporate philosophy suitable for the new company as well as a company name and logo epitomizing such philosophy, and established a framework that would allow the two companies to truly fuse and aim for further growth while at the same time proceeded with the opening, relocation and renovation of carrier-certified shops in order to meet the replacement demand for smartphones. The expansion following the merger in the Company's size have led to an increase in the number of units sold by 86.3% year-on-year to 750,000 units.

As a result, the Company's financial results for the first quarter were 67,855 million yen in net sales (up 125.1% year-on-year), 1,123 million yen in operating income (up 246.3%), 1,152 million yen in ordinary income (up 230.0%) and 508 million yen in net income (up 526.5%).

The financial results of each business segment were as follows.

(Consumer Business)

In addition to enhancing its network of carrier-certified shops following the merger, the Company actively opened, relocated and renovated carrier-certified shops (which mainly involved installing more customer service counters and expanding space where customers could try out smartphones) to meet the strong demand for smartphones. These efforts together with seasonal factors such as new products being sold ahead of the previous year's schedule led to a significant increase in the number of units sold. As a result, net sales increased 139.4% year-on-year to 64,066 million yen and operating income increased 253.2% to 1,678 million yen.

(Corporate Business)

In response to the increased customer base following the merger, the Company pushed ahead with the sales of handsets and the cross-selling of various services for corporate customers as well as the reinforcement of its consulting sales. These efforts resulted in capturing new accounts for "Managed Services," a service which supports companies in raising their business efficiency. Increased sales of pre-paid cards ("POSA Cards") also contributed to the increase in revenues. Consequently, net sales increased 12.2% year-on-year to 3,788 million yen and operating income increased 19.9% to 364 million yen.

(2) Analysis of Financial Position

Status of Assets, Liabilities and Net Assets

(Assets)

Current assets decreased by 4,783 million yen from the end of the previous fiscal year to 58,356 million yen. This was due to the decrease in accounts receivable-trade by 5,729 million yen, the decrease in accounts receivable-other by 2,068 million yen, the increase in merchandise and finished goods by 1,500 million yen, the increase in cash and deposits by 1,142 million, etc.

Noncurrent assets decreased by 249 million yen from the end of the previous fiscal year to 23,906 million yen. This was attributable to the amortization of goodwill of 213 million yen, the amortization of the right of career shop management of 171 million yen, etc.

As a result, total assets decreased by 5,033 million yen from the end of the previous fiscal year to 82,263 million yen.

(Liabilities)

Current liabilities decreased by 5,137 million yen from the end of the previous fiscal year to 48,812 million yen. This was due to the decrease in short-term loans payable by 3,900 million, the decrease in accrued agency commission by 1,451 million yen, the decrease in accounts payable-other by 1,095 million yen, the increase in accounts payable-trade by 1,320 million yen, etc.

Noncurrent liabilities increased by 337 million yen from the end of the previous fiscal year to 5,422 million yen. This was attributable to the increase in provision for retirement benefits by 130 million yen, etc.

As a consequence, total liabilities decreased by 4,799 million yen from the end of the previous fiscal year to 54,234 million yen.

(Net assets)

Net assets decreased by 234 million yen from the end of the previous fiscal year to 28,028 million yen. This was due to the decrease in retained earnings by 232 million yen resulting from dividend payments, etc.

As a result, the Company's equity ratio was 34.1%.

(3) Analysis of Financial Forecasts and Other Forward-Looking Information

During the first quarter under review, the following percentages of forecasts were met: 22.6% of net sales; 14.4% of operating income; 14.8% of ordinary income; and 11.7% of net income. At this stage, no changes have been made to the first-half and full-year financial forecasts announced on April 30, 2013, as demand tends to be concentrated in December and March due to the nature of the business. The Company will properly disclose any changes made to the forecasts in the future.

2. Summary Information (Notes)

(1) Changes in significant subsidiaries during the period

Not applicable.

(2) Application of special accounting procedures in the preparation of quarterly financial statements Changes in significant subsidiaries during the period

Not applicable.

(3) Changes in accounting policies, changes in accounting estimates and restatements

Not applicable.

3. Quarterly Non-Consolidated Financial Statements

(1) Quarterly Non-Consolidated Balance Sheets

(Million yen)

| | As of March 31,2013 | As of June 30,2013 |
|--|---------------------|--------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 1,566 | 2,709 |
| Accounts receivable-trade | 37,122 | 31,393 |
| Merchandise and finished goods | 9,284 | 10,784 |
| Accounts receivable-other | 11,366 | 9,298 |
| Deposits paid | 293 | 360 |
| Other | 3,530 | 3,825 |
| Allowance for doubtful accounts | (23) | (14) |
| Total current assets | 63,140 | 58,356 |
| Noncurrent assets | | |
| Property, plant and equipment | 3,728 | 3,891 |
| Intangible assets | | |
| Goodwill | 2,321 | 2,108 |
| The right of career shop management | 13,409 | 13,237 |
| Other | 597 | 571 |
| Total intangible assets | 16,327 | 15,916 |
| Investments and other assets | 4,099 | 4,097 |
| Total noncurrent assets | 24,156 | 23,906 |
| Total assets | 87,297 | 82,263 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-trade | 18,623 | 19,944 |
| Accrued agency commission | 6,197 | 4,746 |
| Short-term loans payable | 9,900 | 6,000 |
| Accounts payable-other | 11,706 | 10,610 |
| Income taxes payable | 22 | 402 |
| Provision for bonuses | 2,585 | 1,754 |
| Provision for directors' bonuses | 24 | 5 |
| Other | 4,889 | 5,346 |
| Total current liabilities | 53,949 | 48,812 |
| Noncurrent liabilities | | |
| Provision for retirement benefits | 3,755 | 3,885 |
| Provision for directors' retirement benefits | 8 | 8 |
| Asset retirement obligations | 376 | 381 |
| Other | 944 | 1,146 |
| Total noncurrent liabilities | 5,085 | 5,422 |
| Total liabilities | 59,034 | 54,234 |

(Million yen)

| | As of March 31,2013 | As of June 30,2013 |
|---|---------------------|--------------------|
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 2,778 | 2,778 |
| Capital surplus | 9,779 | 9,779 |
| Retained earnings | 15,467 | 15,235 |
| Treasury stock | △0 | △0 |
| Total shareholders' equity | 28,025 | 27,793 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | 236 | 234 |
| Total valuation and translation adjustments | 236 | 234 |
| Total net assets | 28,262 | 28,028 |
| Total liabilities and net assets | 87,297 | 82,263 |

(2) Quarterly Non-Consolidated Statements of Income

(Million yen)

| | Three months ended June 30, 2012 | Three months ended June 30, 2013 |
|--|-------------------------------------|-------------------------------------|
| Net sales | 30,143 | 67,855 |
| Cost of sales | 23,995 | 56,518 |
| Gross profit | 6,147 | 11,337 |
| Selling, general and administrative expenses | 5,823 | 10,214 |
| Operating income | 324 | 1,123 |
| Non-operating income | | |
| Interest income | 2 | — |
| Dividends income | 6 | 3 |
| Income related to sales contest | 2 | 4 |
| Support money of store move etc income | 13 | 14 |
| Other | 3 | 19 |
| Total non-operating income | 27 | 42 |
| Non-operating expenses | | |
| Interest expenses | — | 8 |
| Loss on sales and retirement of noncurrent assets | 2 | 1 |
| Other | 0 | 2 |
| Total non-operating expenses | 2 | 12 |
| Ordinary income | 349 | 1,152 |
| Extraordinary income | | |
| Gain on sales of noncurrent assets | — | 0 |
| Total extraordinary income | — | 0 |
| Extraordinary loss | | |
| Loss on closing of stores | 8 | 40 |
| Loss on sales and retirement of noncurrent assets | 2 | 0 |
| Loss on valuation of stocks of subsidiaries and affiliates | 17 | 7 |
| Impairment loss | 13 | 11 |
| Other | — | 2 |
| Total extraordinary losses | 41 | 63 |
| Income before income taxes | 307 | 1,089 |
| Income taxes-current | 100 | 368 |
| Income taxes-deferred | 126 | 212 |
| Total income taxes | 226 | 580 |
| Net income | 81 | 508 |

(3) Notes on Going Concern Assumption

First quarter under review (from April 1, 2013 to June 30, 2013)
Not applicable.

(4) Notes on Cases of Significant Changes in Shareholders' Equity

First quarter under review (from April 1, 2013 to June 30, 2013)
Not applicable.

(5) Segment Information

1. Overview of reporting segments

Reporting segments of the Company are constituent units of the Company for which separate financial statements are available and subject to periodic examination by the Board of Directors for the purpose of determining the allocation of management resources and evaluating business performance.

The Company's core business is to serve as a sales agency for mobile phones, which involves acting as an intermediary for concluding contracts of mobile phone and other communication services, providing after-sale services to subscribers, and selling handsets, etc.

Therefore, the reporting segments of the Company are "Consumer Business" and "Corporate Business", based on the attributes of customers to whom merchandise is sold and services are provided.

In "Corporate Business", the Company mainly acts as an intermediary for concluding contracts of mobile phones and other communication services, provides after-sales services and sells mobile phone handsets, etc. targeted at corporate customers, while also offering marketing solutions using mobile phones, providing prepaid services to convenience stores, providing Internet connection services and offering M2M solutions .

2. Information on amount of net sales, income or loss of each reporting segment

First quarter under review (from April 1, 2013 to June 30, 2013)

(Unit: million yen)

| | Reporting segment | | | Adjustments (Note 1) | Amount recorded in quarterly non-consolidated statement of income (Note 2) |
|----------------|-------------------|--------------------|--------|-------------------------|---|
| | Consumer Business | Corporate Business | Total | | |
| Net sales | 64,066 | 3,788 | 67,855 | — | 67,855 |
| Segment income | 1,678 | 364 | 2,042 | (919) | 1,123 |

(Notes)

- Adjustments to segment income in the amount of -919 million yen correspond to Company-wide expenses that have not been allocated to each reporting segment. Company-wide expenses are primarily general and administrative expenses that are not attributable to the reporting segments.
- Segment income had been adjusted with respect to operating income in the quarterly non-consolidated statement of income.

4. Supplementary Information

Status of Sales

(Unit: million yen, %)

| | | Three months ended June 30, 2012 | Three months ended June 30, 2013 | Rate of change |
|---|-----------------------|-------------------------------------|-------------------------------------|-------------------|
| Consumer Business | Net sales | 26,765 | 64,066 | 139.4 |
| | Operating income | 475 | 1,678 | 253.2 |
| Corporate Business | Net sales | 3,378 | 3,788 | 12.2 |
| | Operating income | 303 | 364 | 19.9 |
| Adjustments | Company-wide expenses | 454 | 919 | 102.2 |
| Amount recorded in quarterly non-consolidated statement of income | Net sales | 30,143 | 67,855 | 125.1 |
| | Operating income | 324 | 1,123 | 246.3 |