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Response to MIC's Action Plan to Activate Mobile Business in Japan

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Telepark Corp. has strengthened the business base and maximized the corporate value by concentrating its managerial resources on the mobile telecommunication business to sell mobile phones, communication network business to acquire subscribers for landlines and their related business as one of the largest mobile phone distributors in Japan. And we have also intended to enhance profitability by further increasing our market share.

In line with the final report recently submitted by the Mobile Business Study Group organized by Ministry of Internal Affairs & Communications ("MIC") to further activate the mobile phone business, Telepark will take measures as follows.

1. Final report released by the Mobile Business Study Group
On September 20, 2007, the Mobile Business Study Group (Chairman: Mr. Tadao Saito, the emeritus professor of the Tokyo University) organized by MIC released the final report based on discussion in the ten-time meetings, which have been held since January 22, this year, in order to activate Japanese economy and to increase the benefits of users through the growth of new mobile business.
2. Mobile-phone distribution business model in the mobile business
According to the section of "Mobile-phone distribution business model in the mobile business" in the final report, the role played by sales subsidies is approved as "they have contributed to the expansion of mobile handset market by enabling to offer high-end handsets to users at 'lower price' and stimulating demand for higher-end handsets."
 - The report has also commented "The amount of sales subsidies should basically be decided by mobile carriers based on their own management judgement, and it may not be adequate to take legal measures such as abolishment of sales subsidies unilaterally in the current framework of the Telecommunications Business Law", and added that such subsidies should be used for the purpose of increasing the benefits of users through more appropriate communication fees and fair competition from the viewpoint of competition policy. And the report has concluded that the separation plan should be introduced as it is necessary to separate communication fees from price of handset as clearly as possible "so that users can recognize the breakdown of their own ARPU (Average Revenue Per User)".

(Translation)

3. “Future approach” in the final report and Telepark’s response

With regard to the approach to be taken in the near future, the final report mentions that the introduction of such separation plan intends to ensure transparency of communication fees and handset price, and to offer more choice to users not intending to reduce or abolish sales subsidies themselves directly. The report also suggests that it is required to carefully assess the impact not only on users but also on mobile vendors and distributors, and that measures to gain more recognition of such plan among users are needed. The schedule presented in the report is as follows:

By the end of March 2008 : Revision of Telecom Business Accounting Rules on accounting treatment of the sales subsidies to improve transparency of the cost structure by clearly separating the subsidies into two portions related to communication fees and upfront fees in purchasing handsets.

By the end of March 2009 : Partial introduction of the separation plan, and the plan will be gradually enhanced with careful observation of the impact on the mobile market, and periodical verification of the effectiveness of the separation plan.

In 2010 : Overall review the situation to make a final decision on a full-scale introduction.

Telepark will fully provide information on the handset price and communication fees as important matters in making purchase contract, and continue to make an effort to improve users’ convenience and transparency in the mobile industry as a whole, in complying with the “Mobile Business Activation Plan” presented by the “Mobile Business Study Group”.

4. Outlook on the mobile-phone distribution industry

We don’t foresee that the Activation Plan presented in the final report would affect the mobile distribution industry profoundly as mentioned in part of the media coverage. Since mobile distributors fulfil a distributing function for mobile phones, which are necessity article indispensable to people’s daily life, almost exclusively, significance of existence will not change in the future. Furthermore, we don’t think users will hold same handsets much longer time than before, and the total market size of mobile distribution market will shrink so drastically considering the future new attractive models as well as price plans that will be continuously introduced together with the market activation.

With the total number of mobile handset including PHS in use in Japan exceeding one trillion, it is said that the mobile business market is shifting from the rapid growth phase to the mature stage. However, in line with saturation of the domestic market, and as the reorganization of mobile distributors accelerates, it is predicted that leading distributors with financial wealth, organizational integrity and access to abundant information will be able to create more competitive edge taking advantage of scale. And with handsets becoming more advanced and price plans becoming more diversified, further detailed explanation on those products and services is also increasingly required. As a result, the role undertaken by specialized distributors with high quality sales staff will become much more important. We intend to fulfil our corporate social responsibility of contributing to more affluent society by focusing on the development of the telecommunications business and taking various measures to flexibly respond to future change in the market conditions.