SOFTBANK MOBILE Corp.
Mobile Telecommunication Business Securitization

Securitization of the Mobile Telecommunication Business of SOFTBANK MOBILE Corp.

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As of November 2009

TRANSACTION IN BRIEF

Total Amount:	JPY 1,450 billion
Original Obligor:	SOFTBANK MOBILE Corp.
Issuer:	WBS Funding Company J-WBS Funding K.K. (Class B2 Note only)
Tokkin Trust Trustee/Loan Lender:	Mizuho Trust & Banking Co., Ltd.
Inter Creditor Agent:	Citilease Company Ltd.
WBS Funding Corporate Administration Agent:	Citilease Company Ltd.
Security Instruction Agent	Sumitomo Mitsui Banking Corporation
Interest Rate Risk Hedge Counterparty:	Citibank, N.A London Branch Deutsche Bank Tokyo Branch Mizuho Corporate Bank, Ltd. The Royal Bank of Scotland plc. Tokyo Branch
Arrangers:	Citibank, N.A (currently known as Citibank Japan Ltd.) Deutsche Bank Tokyo Branch Mizuho Corporate Bank, Ltd. and others
Joint Lead Manager (Class B2 Note):	Deutsche Bank London Branch (Book Runner) Citigroup Global Markets Ltd. Mizuho International plc.
Underlying Assets:	Trust Beneficial Certificates of a specified monetary trust ("Tokkin Trust") (Underlying asset of Class B2 Note are B2 Note Loan to WBS Funding)
Interest Payment:	Monthly
Amortization:	Path-through

Class	Amount (JPY 1billion) (Initial)	(Current)	Coupon	Date of Issuance	Maturity (Expected)	(Legal Final)	Rating (Initial)	(Current)
A1 Loan	647.2	361.2	Floating	2006/11/30	–	2016/11/10	A3	A3
A2 Loan	397.0	397.0	Floating	2006/11/30	–	2016/11/10	A3	A3
A Note	99.4	72.2	Floating	2006/11/30	*	2016/11/10	A3	A3
B1Loan	123.3	123.3	Floating	2006/11/30	–	2019/11/10	Baa3	Baa3
B2 Note	175.0	175.0	Fixed	2006/11/30	–	2019/11/15	Baa3	Baa3

*Monthly roll-over

MOODY'S
INVESTORS SERVICE

January 2010

SUBSCRIBER NUMBERS AND ARPU

Month	Subscriber Numbers (Cumulative) (thousand)	Gateway Criteria (thousand)	Minimum Case (thousand)	Moody's (thousand)	ARPU (Voice Transmission) (JPY/month)	ARPU (Data Transmission) (JPY/month)	ARPU (Total) (JPY/month)
2006/12	15,497	15,478	15,323	–	4,260	1,310	5,570
2007/03	15,909	15,745	15,435	15,434	3,970	1,490	5,460
2007/06	16,441	16,049	15,508	–	3,520	1,410	4,930
2007/09	17,053	16,353	15,581	–	3,190	1,450	4,640
2007/12	17,614	16,657	15,654	–	2,960	1,510	4,470
2008/03	18,586	16,961	15,727	16,372	2,720	1,690	4,410
2008/06	19,112	17,211	15,809	–	2,450	1,630	4,080
2008/09	19,633	17,461	15,890	–	2,380	1,720	4,100
2008/12	20,000	17,711	15,972	–	2,280	1,820	4,100
2009/03	20,633	17,960	16,053	16,987	1,970	1,880	3,850
2009/06	20,956	18,190	16,128	–	2,230	1,870	4,100
2009/09	21,317	18,419	16,203	–	2,110	1,990	4,100

Gateway Criteria: If subscriber numbers fall below the criteria, the cash amount that can be used for capital investment from Free Cashflow is subject to certain restrictions.

Minimum Case: If subscriber numbers does not reach required levels within a certain time period, Loan Lender can exercise Conditional Lender Rights.

Moody's: Moody's base case

ARPU: Average Revenue Per User. It indicates the monthly average sale per subscriber.

CUMULATIVE DEBT REDEMPTION

Month	Gateway Cumulative Debt Redemption (JPY MM)	Redemption from Free Cashflow* (JPY MM)	Redemption from Additional Interest (JPY MM)	Redemption from Installment Sales Securitizations (JPY MM)	Case A (JPY MM)	Actual Cumulative Debt Redemption (JPY MM)	Case B (JPY MM)	Minimum Case (JPY MM)	Moody's (JPY MM)
2006/12	10,451	10,451	0	0	10,000	10,909	0	0	–
2007/03	27,323	12,898	3,974	0	20,000	34,080	0	0	0
2007/06	39,384	8,654	2,386	1,021	30,000	67,442	0	0	–
2007/09	45,826	173	2,488	3,781	40,000	86,322	0	0	–
2007/12	54,487	280	2,344	6,036	50,000	107,807	0	0	–
2008/03	65,577	431	2,360	8,299	60,000	124,973	0	0	91,235
2008/06	78,489	0	2,343	10,569	70,000	149,999	0	0	–
2008/09	95,676	0	2,383	14,804	80,000	184,125	0	0	–
2008/12	116,037	0	2,354	18,007	90,000	209,400	15,000	15,000	–
2009/03	138,781	0	2,407	20,338	100,000	242,868	30,000	30,000	183,937
2009/06	164,161	0	2,390	22,990	130,000	280,383	55,000	50,000	–
2009/09	192,379	0	2,422	25,795	160,000	312,965	80,000	70,000	–

* Quarterly Free Cashflow defined in WBS

Case A: If the Case A target for Cumulative Debt Redemption Amount is not met, the cash amount that can be used for capital investment is restricted within the limit allowed by the Maximum Cumulative Capex Amount.

Actual: Redemption of rated amount, which includes redemption other than Gateway Cumulative Debt Redemption

Case B: If Case B target for is not met for two consecutive quarters, Conditional Lender Rights will be conducted.

Minimum Case: If the Minimum Case Cumulative Debt Redemption Amount is not met, it constitutes an Event of Default for the SBM Loan. (based on Actual)

Moody's: Moody's base case (for Actual)

1. The market

1) ARPU

SOFTBANK MOBILE Corp. ("SBM") has been a trailblazer, offering a basic charge as low as JPY980 a month since January 2007. Competitors have followed in SBM's wake and offered their own versions, with lower basic charges or discount programs, resulting in an overall decline in ARPU (Average Revenue Per User per month). The introduction of the installment plan[1] for mobile handsets has considerably reduced the incentives from telecommunications carriers to distributors, and carriers have been offering discounts on telecommunications charges[2] in an effort to proliferate the new price plan - another reason for the decline in ARPU. Data ARPU has been increasing for all carriers, according to a breakdown (for voice and data) disclosed by each carrier.

Table 1: ARPU

	2Q FY2007			2Q FY2008			2Q FY2009		
	Total ARPU			Total ARPU			Total ARPU		
		Voice	Data		Voice	Data		Voice	Data
DOCOMO	6,550	4,340	2,210	5,860	3,450	2,410	5,420	2,970	2,450
KDDI (au)	6,400	4,270	2,130	5,940	3,730	2,210	5,600	3,330	2,270
SBM	4,800	3,340	1,470	4,170	2,460	1,710	4,150	2,160	1,990
EMOBILE	5,000*	-	-	3,600*	-	-	3,310	-	-

Compiled by Moody's from carriers' financial results

** Estimated by Moody's, based on eAccess Ltd. financial information*

2) Churn Rates

Discounted telecommunications charges are structured for users who continuously subscribe to the service for the entire installment period, typically 24 months. The new telecommunications charges plan, together with the installment payment period, is designed to lock in existing subscribers for the entire period. Churn rates have declined considerably since the introduction of the installment plan, which is likely to continue until the end of the lock-in period for users who chose the installment plan at the early stage.

In the meantime, mobile handset prices (which had been covered for the most part by distributors in exchange for incentives) have risen, encouraging subscribers to hold on to their handsets for a longer period rather than purchasing new models.[3] The overall decline in consumption since the fall of last year has also affected the churn rate.

However, SBM's churn rates in 2Q FY2009 (July-September 2009) increased from 2Q FY2008, caused by the increase in users who have completed their installment payments. SBM's termination of PDC service in March 2010 will also likely increase the churn rates for FY2009. The churn rates of other carriers are also expected to increase, because of the gradual increase of these users, as well as carriers' discount campaigns for users who switch.[4]

However, users are holding on to their mobile handsets for longer periods; this should mitigate the increase in churn rates, which should stabilize.

1. SBM introduced an installment plan - the first of its kind in Japan - in September 2006, while the rollout of the "New Super Bonus" started in October 2006. This was followed by the introduction of similar plans by other carriers - PHS carrier WILLCOM, Inc ("WILLCOM") in July 2007, NTT DoCoMo, Inc. ("DOCOMO") in November 2007, and KDDI CORPORATION ("KDDI") in June 2008. All the major Japanese carriers now offer mobile handset installment plans.
2. Despite the reduction in monthly telecommunications charges, the new payment structure does not change a subscriber's total monthly payment, as it now also includes the monthly installment payment for the handset.
3. SBM's mobile handset upgrade rates declined from 2.67% (2Q FY2007) to 1.91% (2Q FY2008) and 1.81% (2Q FY2009), according to SOFTBANK's 2Q FY2009 financial results briefing for analysts held on October 30, 2009.
4. Campaigns include SBM's "Norikae Switchover Discount" (September 1 to November 30, 2009, no basic charges for as many as ten months); KDDI's "MNP Cash Back Campaign" (October 1 to November 30, 2009, JPY10,000 cash back); and DOCOMO's "Change Discount" (November 1, 2009 to January 31, 2010, mobile handset discount of up to JPY 10,500).

Table 2: Churn Rates			
	2Q FY2007	**2Q FY2008**	**2Q FY2009**
DOCOMO	0.94%	0.52%	0.46%
KDDI (au)	1.03%	0.75%	0.72%
SBM **(post-paid 3G subscribers only)**	1.42% (1.05%)	0.98% (0.76%)	1.24% (1.07%)
EMOBILE	1.0%	1.0%	1.1%

Compiled by Moody's from carriers' financial results

3) New entrants to the market

EMOBILE Ltd.'s ("EMOBILE") subscriber numbers have been growing steadily,[5] reaching around 1,980,000 as of end-October 2009, scoring the second-largest share of monthly net additions (after SBM) five times in a single year (from November 2008 to October 2009). Its users are attracted by high-speed data transmissions and low charges, and bundled sales with netbooks (low-cost PCs) contributed to the increase in subscribers.

UQ Communications Inc. started its Mobile WiMAX (high-speed wireless Internet) service in February 2009.[6] It is targeting users of data transmission modules[7] for mobile phone or PHS carriers and outdoor users of wireless LAN. The number of subscribers as of September 2009 was 21,700. Quality and pricing of the data transmission service, on which the major players are focusing, will require close watching.

4) Migration to 3G and move to 3.5G

The market-wide migration from 2G to 3G is progressing, with 3G service subscribers now comprising roughly 95% of the market.[8] In addition, carriers have introduced a 3.5G high-speed downloading service[9] with improved high-speed data transmission, and are shifting their focus to high-speed "upload" services. Moreover, DOCOMO announced that it would launch an LTE (Long Term Evolution) service in December 2010, and its next-generation 3.9G technology should draw considerable market attention in the near future.

5) Market Saturation

The number of mobile phone and PHS subscribers in Japan has reached 114 million,[10] and given the country's population, the market is pretty much saturated. Although demand for second units - such as for business use (with a corporate contract) - remains, significant growth in new subscriber numbers is no longer expected. Telecommunication carriers will thereby likely focus their efforts on retaining existing subscribers.

5. EMOBILE started providing data transmission service in March 2007, and voice telecommunications service in March 2008
6. A trial period (no basic charge or registration fee) was offered until June 2009, with paid service starting in July 2009.
7. Subscribers of data transmission modules as of October 2009 number 1,546,100 for DOCOMO, 1,006,600 for KDDI, and 203,000 for SBM, according to the Telecommunications Carriers Association ("TCA").
8. According to TCA, 3G subscribers accounted for 95.4% of all mobile phone users as of end-October 2009. SBM's 3G subscribers accounted for 95.4% as of end-October 2009, and SBM announced that it would terminate its PDC service in March 2010.
9. Such services include KDDI's "CDMA 1X WIN" (from November 2003), DOCOMO's "FOMA High-Speed" (from August 2006), SBM's "3G High-Speed" (from October 2006), and EMOBILE's data transmission service (from March 2007).
10. The number of subscribers reached 114,282,200 as of end-October 2009, according to the TCA.

2. SBM

1) Number of subscribers

SBM's subscriber numbers grew steadily, up 40% in three years, from 15.33 million in October 2006, to 21.41 million in October 2009. Its market share reached the 19% range recently,[11] up from around 16% in 2006. Improvements in network quality, the development of attractive mobile handsets, and user-friendly pricing have contributed to the growth in market share. Sophisticated subscribers who prefer mobile handsets like iPhone tend to be heavy users, with high data ARPU. The young adults targeted by SBM[12] are actively accessing music, games, and movies, and are expected to generate high ARPU. Especially, retention of high ARPU subscribers is expected to contribute to increase the company's operating cash flow.

2) ARPU

SBM's historical voice ARPU, affected by installment plan discounts[13] and strategic discounts for voice telecommunication services, declined through February 2009. However, the impact of the installment plan discounts has already peeked, and voice ARPU stopped declining in March 2009.

Data ARPU has shown a slight increase, caused by 1) an increase in data transmissions by flat-rate service[14] users, and 2) an increase in users who switched from measured-rate to flat-rate service. A steady increase in data ARPU will be a key to bolstering SBM's operating cash flow.

3) Network infrastructure

With high-quality content and sophisticated mobile handsets (like iPhone), data traffic volume is increasing, and SBM is required to provide higher data transmission speeds. Reinforcing, and alleviating the burden on the network, will be a challenge.

SBM has been expanding its 3.5G service, especially to higher traffic areas. In June 2009, SBM obtained a license to use the 1.5GHz frequency band (in addition to the current 2GHz frequency band), and plans to launch a service using the 1.5GHz band in April 2010. Moreover, SBM introduced new mobile handsets with WiFi capability (which enables a user to connect to the Internet through a wireless LAN - an iPhone feature), and expects to alleviate the burden on the network and increase traffic speed by leveraging the group's Internet service infrastructure.

SBM announced the start of restrictions on the speed of massive data transmissions starting in December 2009 to take action against a particular group of users with excessive data traffic.[15]

4) Efforts to address fraud

Mobile handset "fraud" proliferated after the introduction of installment plan. To reduce concomitant loan loss costs, SBM implemented a number of measures, including launching an in-house audit center, using external credit information sources to verify customers' credit, verifying ID and cooperating with police, sharing information with competitors, restricting the use of secondhand mobile handsets, and strengthening the audit of corporate users. These efforts have resulted in a significant reduction in loan loss costs. Moody's thus believes that the potential adverse impact of fraud on operating cash flow has been minimized.

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11. SBM's market share was 19.5% as of end-October 2009, according to TCA.
12. SBM offered discount programs such as its "White Plan Student Discount" (February 1 to September 30, 2008 - no basic charges for three years) and "White Plan Student & Family Discount" (February 3 - September 30, 2009 - a 50% discount on basic charges for three years for students and their families).
13. "New Super Bonus Discounts" (renamed the "Monthly Discount" on November 1, 2008) declined voice ARPU (basic charges) by JPY1,030 in July-September 2009, according to SOFTBANK's 2Q FY2009 financial results briefing for analysts held on October 30, 2009.
14. Services include "Unlimited Packet," with a flat rate of a minimum JPY1,029 per month and a maximum JPY4,410 per month, depending on the packets used.
15. According to SBM's press release, "Introduction of Measures to Maintain Network Quality," September 29, 2009.

5) Securitization of Installment Sales Receivables

SBM raises funds by securitizing installment sales receivables it originates through its installment plan. These funds have been allocated to capital expenditures and the debt redemption of this WBS, in accordance with the WBS agreement. The total amount of receivables securitized between June 2007 and September 2009 amounted around JPY620.0 billion, of which JPY243.0 billion were allocated the debt redemption of this WBS. As of September 2009, the outstanding balance of the installment sales receivables amounted to JPY478.5 billion, and the securitization borrowings amounted to JPY221.6 billion.[16] .

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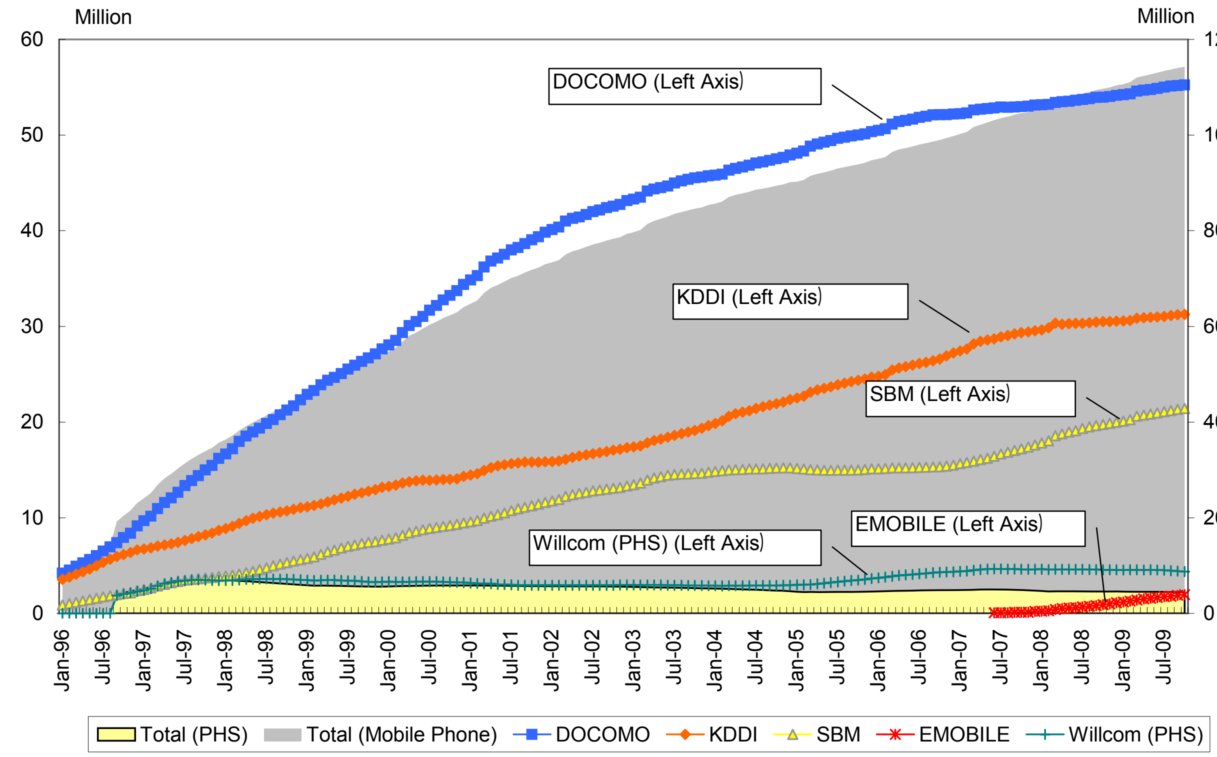
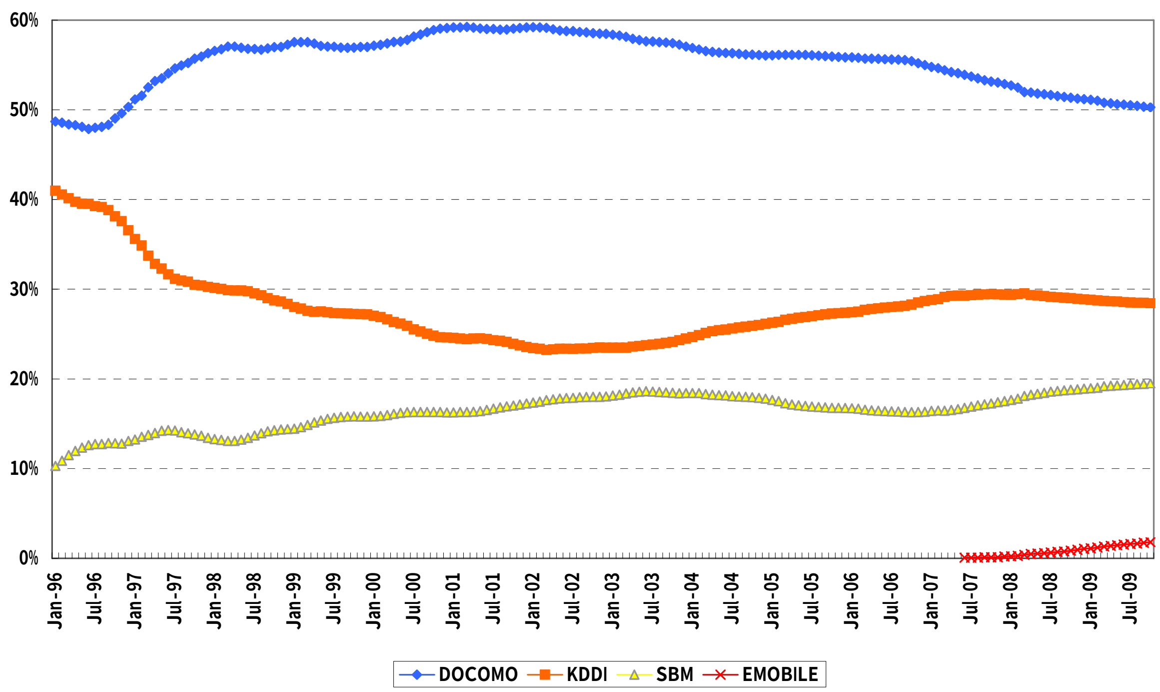
16. According to SOFTBANK's 2Q FY2009 financial results briefing for analysts held on October 30, 2009.

Chart 1: Number of Subscribers (Mobile Phone + PHS)



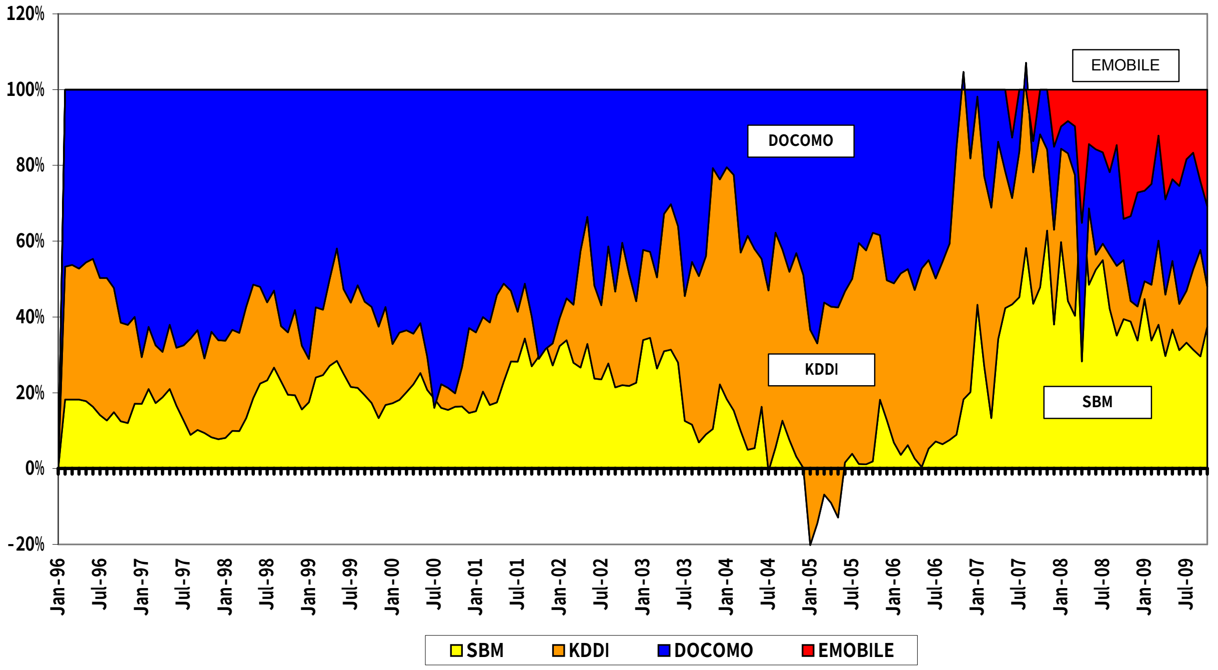
Compiled by Moody's, from Telecommunication Carriers Association

Chart 2: Market Share (Mobile Phone)



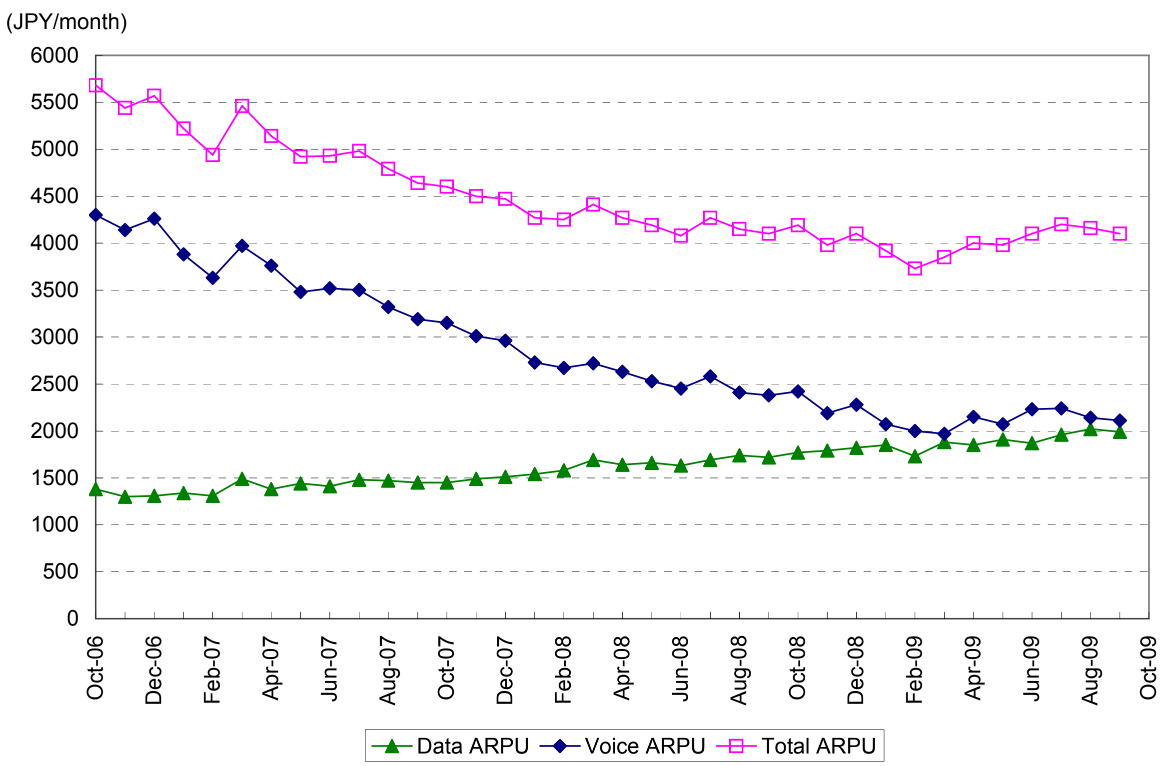
Compiled by Moody's, from Telecommunication Carriers Association

Chart 3: Share of Net Additions (Mobile Phone)



Compiled by Moody's, from Telecommunication Carriers Association

Chart 4: SBM's ARPU



Moody's, from the securitization monitoring data

3. Outlook and Risk Factors

Debt redemption of the WBS is proceeding ahead of the management plan. The following risk factors should be examined in assessing whether SBM can sustain this performance.

1) Number of subscribers and ARPU

In the last two and a half years, SBM has almost always been in the lead in terms of net additions of subscribers. However, market-wide net additions have been declining, and SBM's net additions should slow down as a result.

Although the decline in voice ARPU may be bottoming out, any discount campaigns could still lead to a further decline. SBM's data ARPU, although showing signs of an increase, is still lower than DOCOMO's or KDDI's by around JPY300-500, and there is still room for further improvement.

Since it no longer expects considerable growth in subscriber numbers, SBM needs to focus on retaining existing subscribers. Moody's will monitor whether SBM can retain high ARPU users, as well as increase the data ARPU of low traffic users. The critical challenge for SBM will be expanding the lineup and content for its mobile handsets, maintaining network quality, and supporting high-speed services.

2) Costs

Subscribers are holding on to their mobile handsets for longer periods, which has led to a slowdown in mobile handset sales. SBM might need to increase incentives to distributors to compete with other carriers. Moody's will keep a close watch on whether SBM can effectively control costs in accordance with its corporate business plan. Loan loss costs and mobile handset stocks should also be monitored.

3) Capital Expenditures

SBM announced that it planned to increase its FY2009 capital expenditures from its initial JPY175.2 billion to JPY215.0 billion, compared to JPY235.3 billion in FY2007 and JPY199.1 billion in FY2008.[17] In order to cope with the growing demand of increased data traffic volume and higher transmission speeds, SBM will be required to continue its efforts to reinforce and alleviate the burden on the network. SBM is planning additional investment to further develop 3.5G and for the 1.5GHz frequency band. In addition, development of 3.9G will be a key from a medium-term perspective.

4. Rating Rationale

Moody's interviewed SBM about its business projections and strategies. The market environment for mobile phones, as well as SBM's position in the market and its strong cash flow are within our initial expectations. An unexpected increase in the risk factors listed in Section 3, unless well controlled by SBM, will likely pressure ratings.

17. According to SOFTBANK's 2Q FY2009 financial results briefing for analysts held on October 30, 2009.