Q1. Please discuss the SBI Group's performance in FY2011 and its business environment.

A1. Although the business environment remained challenging, affected by factors such as the Great East Japan Earthquake, the European debt crisis, and the economic slowdown in emerging countries, we would have achieved a year-on-year increase in net income of 19.9%, if the impact of a reversal of deferred tax assets and liabilities, which followed a revision to the tax system, were to be excluded.

The outlook for Japan's economic environment remains uncertain, despite a gradual recovery after the slump in economic activity that came in the wake of the Great East Japan Earthquake of March 2011, owing to factors such as the continuing high levels of unemployment and a persistent and long-term yen appreciation trend.

The environment remains extremely difficult in the securities industry. Individual stock-brokerage trading value for the domestic stock market is down by 14.4% year-on-year to ¥110 trillion for the full year in FY2011, as a result of the impact from the Great East Japan Earthquake, the European debt crisis, and other factors. On the other hand, the number of domestic IPOs, which had been faltering, bottomed out in FY2009 and has since been improving gradually. In FY2011, the number of domestic companies undergoing IPO increased by 14 from the previous fiscal year to 37, indicating that the domestic IPO market has entered a mild recovery phase.

Overseas, the global stock markets remained weak. The effects of the European debt crisis spread to the emerging countries that had sustained high economic growth even after the Lehman Shock, and signs of a slowdown in that growth emerged. As a result, the number of companies undergoing IPO globally declined in FY2011, falling by 271 from the previous fiscal year to 1,125, for the first decline since FY2008.

In this environment, our consolidated net sales increased 2.8% year-on-year to ¥145.1 billion, operating income decreased 15.2% to ¥7.6 billion, ordinary income increased 37.8% to ¥4.9 billion, and net income decreased 29.4% to ¥3.2 billion. However, net income was affected by approximately ¥2.2 billion arising from a reversal of deferred tax assets and liabilities under the revision to the tax system, without this temporary impact, we believe we would have achieved a net income of ¥5.4 billion, for a year-on-year increase of 19.9%.

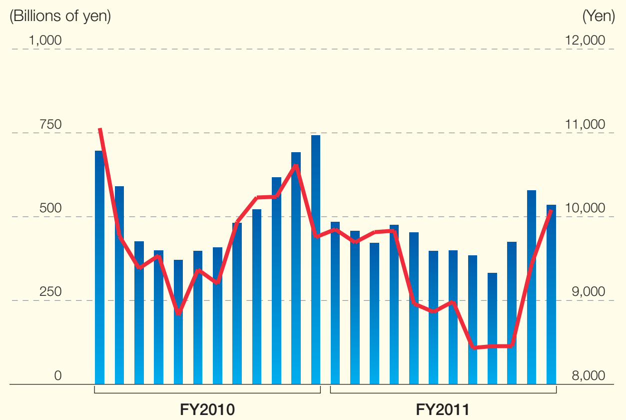
Looking at each business segment, operating income of the Asset Management Business rose 48.1% year-on-year to ¥14.2 billion, owing primarily to a capital gain posted from sales of stocks, including approximately ¥5.2 billion from a sale of shares in VSN, Inc., a portfolio company of a fund managed by SBI CAPITAL, and approximately ¥6.4 billion from the sale of shares in KLab Inc., a portfolio company of funds managed by SBI Investment. The total number of SBI Group's investee companies that accomplished IPOs or M&A deals in FY2011 was 14. Of these, there were 5 domestic IPOs, including KLab Inc., 6 overseas IPOs, 2 domestic M&As, and 1 overseas M&A, striking a good balance between domestic and overseas IPOs and M&As by investee companies. This compares to the previous fiscal year, when 16 of the 17 companies were overseas IPOs or M&A deals.

In the Brokerage & Investment Banking Business, operating income was adversely affected by the impact of the stagnation of individual stock-brokerage trading value, and declined by 41.1% year-on-year to ¥3.6 billion. However, diversification of revenue sources into investment trusts, foreign bonds, and foreign-exchange margins (FX), etc., continues to progress. In particular, with regard to FX trading, while the cumulative trading value of domestic over-the-counter FX transactions for FY2011 declined 12.7% year-on-year, the annual trading value of SBI SECURITIES was firm, climbing 27.7% year-on-year, owing to the effectiveness of our countermeasures against the tightened leverage regulations and other factors. SBI SECURITIES continues to significantly outperform other online securities firms in terms of its number of accounts and customer assets.

The Financial Services Business posted an operating loss of ¥2.6 billion. This is primarily due to an increase in operating loss of ¥3.5 billion at SBI Insurance. The contributing factors were 1) an increase in the number of automobile insurance contracts written (up 41.1% year-on-year), 2) the finalization of new purchases of reinsurance, which led to a significant increase in the provision for policy reserve, which is recognized as a cost in accounting, and 3) the termination of the outsourcing agreement. However, since the policy reserve is not an expense that is totally cashed out, SBI Insurance's cumulative operating cash flow for FY2011 was in the black by a margin of ¥1.4 billion. SBI Sumishin Net Bank, an equity-method affiliate, continues to steadily expand its customer base and performed solidly, posting an ordinary income of ¥5.8 billion, for a 58.1% increase from the previous fiscal year.

In the Housing and Real Estate Business, the operating performance of both SBI Life Living and SBI Mortgage dropped temporarily after the Great East Japan Earthquake, but later returned to a recovery trend, resulting in an operating income of ¥3.4 billion, for a 0.4% year-on-year increase.

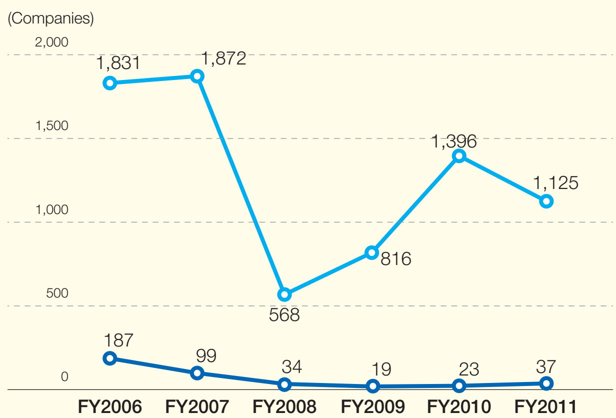
Change in Nikkei Average and Average Daily Individual Brokerage Trading Value



Daily average individual brokerage trading value (Left-side scale)
End-of-month Nikkei Average (Right-side scale)

(*the total of the 1st and 2nd section of the 3 major markets)
Source: Compiled by SBIH from information disclosed by TSE, OSE

Number of Domestic and Overseas IPO Companies



No. of IPOs in the world
No. of IPOs in Japan (all markets)

Source: Stock exchanges, E&Y "Global IPO Update"

Q2. Please tell us about the company's FY2011 financials.

A2. **Our equity ratio as of March 31, 2012, was 47.6%, after eliminating the effect of asset and liability accounts specific to a securities company, as we continue to maintain a sound financial position. In addition, we are taking measures to improve the balance of long- and short-term interest-bearing debt.**

In April 2011, SBI Holdings newly issued Hong Kong depositary receipts (HDRs) of our common shares and listed on the Hong Kong Stock Exchange, consequently raising approximately ¥16.2 billion to further reinforce our financial position.

We have also made efforts to improve the balance of our long- and short-term interest-bearing debt. To date, we have primarily issued short-term debt, such as one-year corporate bonds (known as "SBI Bonds") based on the Euro Medium-Term Note (MTN) Program. However, while reducing the balance of this short-term debt, we concluded a three-year, long-term commitment-line contract with a maximum limit of ¥40.0 billion with our main bank in September 2011, enabling the stable procurement of funds over the longer term. In addition, we newly issued straight bonds in January 2012 worth ¥30.0 billion with a 3 year maturity.

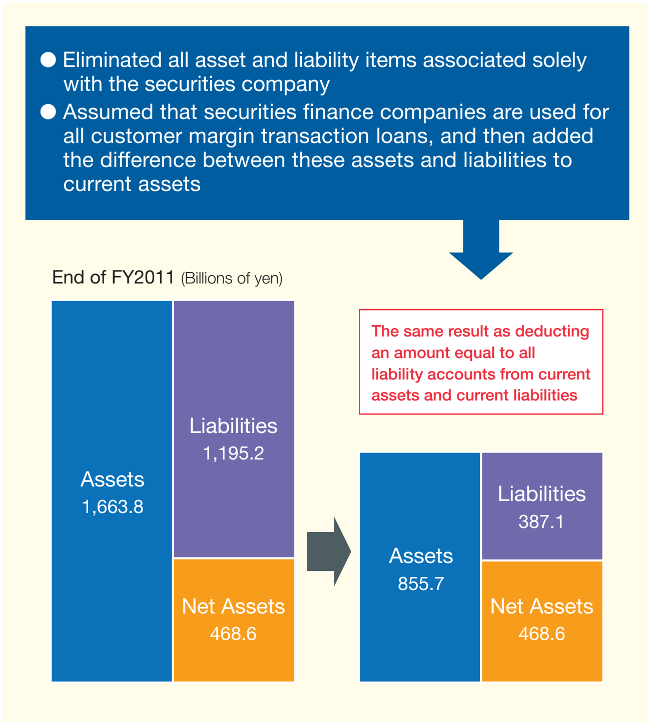
SBI Holdings' Benchmarks of Financial Soundness

Owing to our subsidiary SBI SECURITIES, our consolidated balance sheets include assets held in customer securities accounts, which inflates the actual amount. Customer securities accounts include margin transaction assets and cash segregated as deposits for current assets, along with margin transaction liabilities, guarantee deposits received, and deposits from customers for current liabilities, all of which will distort the usual measures of analyzing a company's true present underlying financial condition.

Therefore, we have deducted SBI SECURITIES' customer assets as of March 31, 2012, to calculate the financial indicators that more accurately reflect the financial soundness in our balance sheets. The result of this is a current ratio of 187.3% (124.3% prior to deduction), an interest-bearing debt ratio of 56.8% (the same 56.8% prior to deduction), and an equity ratio of 47.6% (24.5% prior to deduction), each maintaining the so-called "benchmarks of financial soundness."

Going forward, we will continue to be aware of our financial needs, while strategically investing for the future and maintaining our sound financial condition.

Features of SBI Holdings' Consolidated Balance Sheet



SBI Holdings consolidated financial indicators after deduction of SBI SECURITIES' assets held in customer securities accounts

	March 31, 2010	March 31, 2011	March 31, 2012
Current ratio	182.3	185.6	187.3
Interest-bearing debt ratio	58.2	54.1	56.8
Equity ratio	46.9	48.7	47.6

Q3. What is the progress of the “Brilliant Cut Initiative,” which has been a focus of your efforts since July 2010?

A3. **We have completed the first and second phases of the Brilliant Cut Initiative, and the progress continues steadily. From March 2012, we have moved to the third phase of the Brilliant Cut Initiative in the Financial Services Business, where we will proceed with a process of “selection and concentration,” by verifying the existence and the strengths of the synergies with our three core businesses of securities, banking, and insurance.**

Overview of the First and Second Phases of the Brilliant Cut Initiative

In the Brilliant Cut Initiative, each of the companies and divisions of the SBI Group corresponds to a facet of a diamond. Furthermore, the “58-facet brilliant cut” that produces the highest brilliance in a diamond symbolizes the 58 major business units of the SBI Group’s corporate ecosystem.

In the first phase, begun in July 2010, the primary goal was to improve the operating income of each company. In the second phase, begun in April 2011, we examined not only the operating income, but also the state of the balance sheets and cash flow of each company, in order to determine their profitability.

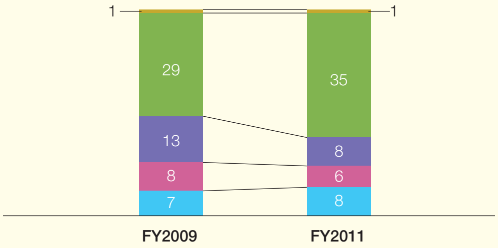
As a result of such efforts, if we compare FY2009 and FY2011 for the 58 major business units, the number of profitable companies and divisions increased by 6, from 29 to 35, and the number of unprofitable companies and divisions decreased by 5, from 13 to 8. Furthermore, the total amount of operating income for the profitable companies and divisions increased by ¥11.1 billion, from ¥16.4 billion to ¥27.5 billion. Meanwhile, although the total amount of operating losses from unprofitable companies and divisions increased by ¥3.9 billion, from ¥5.3 billion to ¥9.2 billion, SBI Insurance accounted for ¥3.5 billion of the total.

Parallel to efforts to strengthen the profitability of each company, we also moved ahead with the reorganization of the Group. As a part of our reorganization, during the first and second phases, we converted SBI Net Systems to a wholly-owned subsidiary of SBI Holdings, Morningstar Japan concluded the absorption merger of Gomez Consulting, SBI ArchiWorks was liquidated, and our entire stake in HOMEOSTYLE was sold.

The First and Second Phase of Brilliant Cut Initiative

Number of profitable/unprofitable companies (divisions)

(unit: companies/divisions)

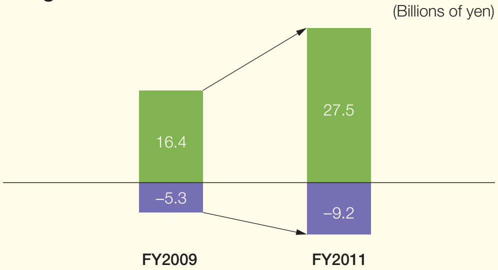


SBI Holdings
Profitable companies and divisions
Unprofitable companies and divisions
Newly established or acquired companies*
Overseas subsidiaries and rep. offices

* Consistently profitable companies in “Newly established or acquired companies” were moved to “Profitable companies and divisions”

Operating income/loss*

(Billions of yen)



Profitable companies and divisions
Unprofitable companies and divisions

* The total sum of operating income/loss of each company (division), and operating income/loss of each equity-method company/affiliated company and non-consolidated subsidiary is included.

Major Companies with Operating Deficits Also Show Trend toward Improved Performance

The three major companies that posted operating deficits in FY2010 were SBI Card, SBI Japannext, and SBI Pharmaceuticals (the former SBI ALApromo), but all have shown improved performance.

Thorough cost cutting and other measures proved to be successful at SBI Card and SBI Japannext, where operating losses at both companies for FY2011 improved by ¥0.8 billion year-on-year. Meanwhile, the operating loss at SBI Pharmaceuticals increased by ¥0.1 billion, but that was primarily attributable to increased R&D costs associated with the solid progress being made in the development of pharmaceuticals, whereas the sales of health foods and cosmetics continue to increase steadily.

Thorough Pursuit of Synergies with the Three Core Businesses in the Third Phase

From March 2012, the Brilliant Cut Initiative in the Financial Services Business entered the Third Phase. We will press ahead with a thorough “selection and concentration” of businesses by not only examining the profitability and growth potential of each business, but also by determining the existence and strengths of synergies with the three core businesses in the Financial Services Business, namely securities, banking, and insurance. Furthermore, we will determine whether substitutes exist for the products and services provided, and if they may be deployed overseas.

The decision to sell our wholly-owned subsidiary SBI VeriTrans (currently VeriTrans) to a subsidiary of Digital Garage, Inc. in March 2012 was based on such criteria. That is, the e-commerce settlement service operated by SBI VeriTrans had a weak synergy with our three core businesses, and its growth rate within the SBI Group was limited. Therefore, we determined it would be better to sell SBI VeriTrans to an external third party that is acutely aware of its value, in order for us to concentrate our resources in areas where stronger synergies are expected with the three core businesses.

Q4. What are the background and the goals of the organizational restructuring within the SBI Group from FY2012?

A4. With the adoption of International Financial Reporting Standards (IFRS), we revamped the Group organization around the axis of the three core businesses, of the Asset Management Business, Financial Services Business, and Biotechnology-related Business. Through this reorganization, we will be positioned to respond to the fiscal changes caused by introduction of the IFRS, and to establish an organizational structure to realize the "World's SBI."

Background of the Reorganization and Basic Strategy for Each Business Segment

"Structure follows strategy" is a famous thesis proposed by the American business historian Alfred Chandler, and captures the importance of implementing reorganization in line with a strategy. Therefore, toward our transition to become the "World's SBI," we have embarked on the creation of a new organizational structure to realize that goal.

First, SBI Holdings was requested by the Stock Exchange of Hong Kong Limited (SEHK) to promptly adopt International Financial Reporting Standards (IFRS), on the occasion of its listing on the SEHK in April 2011, and according to such, we are adopting IFRS from the first quarter of FY2012. With its adoption of IFRS, fluctuations in market values or exchange rates associated with operational investment securities during the accounting period will be directly recognized as a profit or loss in the Asset Management Business. As a result, there is a possibility that fluctuations in periodic profit or loss will be larger than they used to be; therefore, it is desirable to clearly delineate the Asset Management Business. At the same time, with the expansion of overseas investments, it has become necessary to efficiently and centrally manage our capital and foreign exchange for this business.

Furthermore, as previously mentioned, the Brilliant Cut Initiative in the Financial Services Business has moved into the Third Phase, in pursuit of synergies with the three core businesses of securities, banking, and insurance. Seeking even greater synergies, we have concluded that it is necessary to integrate the Brokerage & Investment Banking Business and the Financial Services Business, which had previously been divided into separate segments, for efficient operation.

Meanwhile, the Biotechnology-related Business, which is expected to become a new income source, continues to expand steadily, and will be cultivated as one of the main future business pillars of SBI Holdings.

Against this backdrop, we decided to reorganize our business segments from FY2012 into three businesses, namely the Asset Management Business, the Financial Services Business, and the Biotechnology-related Business.

Going forward, the intermediate holding company, SBI Capital Management, will specialize in business operations for the Group's Asset Management Business, including centralized management of capital and foreign exchange, in an effort to improve the efficiency of capital management and procurement in the business.

In the Financial Services Business, the former Brokerage & Investment Banking Business and the Financial Services Business will be merged into one segment, and the sales infrastructures of securities, insurance, and housing loan businesses will be unified as a common infrastructure under the intermediate holding company, SBI FINANCIAL SERVICES. Through these changes, we will thoroughly pursue synergies among the three core businesses in the Financial Services Business, namely securities, banking, and insurance.

The Biotechnology-related Business is regarded as the Group's highest growth business area, centered on the rapidly growing 5-ALA related business, and we are moving ahead with global development in cosmetics, health foods, and drug discoveries.

Development of Overseas Organizational Structure

We are also working on the development of an organizational structure overseas. As the first stage toward establishing SBI Hong Kong Holdings, our Hong Kong subsidiary, into a second headquarters, the company was positioned as an overseas business management company, to conduct business development to become the "World's SBI." We also appointed representatives from the SBI Group's overseas partner companies as directors of SBI Hong Kong to oversee the formulation of our overseas strategies. In May 2012, we invited the appointed directors to attend the First SBI Global Strategic Conference, which was held in Hong Kong, and we plan to continue holding these meetings in the future. These meetings serve as an opportunity to develop the SBI Group's overseas strategy, as well as to promote collaborations among the partners.

Interview with SBI Holdings CFO Shumpei Morita

IFRS Adoption Impact

SBI Holdings is voluntarily adopting the International Financial Reporting Standards (IFRS) from FY2012. The accounting standard will significantly differ from that under the Japanese Generally Accepted Accounting Principles (JGAAP), and in particular will affect the recognition of revenue in businesses such as the Asset Management Business, the accounting procedures for partial sales of subsidiaries' shares, and the accounting procedures for goodwill.

Director, Managing Executive Officer & CFO

Shumpei Morita

The impact on accounting standards accompanying the adoption of IFRS will be particularly significant in terms of, 1) change in the recognition of revenue of the Asset Management Business, 2) change in the accounting procedures for partial sales of subsidiaries' shares (where there is no change in the scope of consolidation), and 3) change in the accounting procedures for goodwill.

The changes reflect the characteristics of IFRS, which differ from JGAAP in how they view "fair value" measurement and minority shareholders. The basic premise of fair value measurement under IFRS is to measure the fair value of assets and liabilities each fiscal year, and to recognize the difference in the amount of periodic profit or loss. With regard to minority shareholders, the IFRS viewpoint is characterized not by the "parent company concept," which considers the purpose of consolidated financial statements to calculate the profit and equity for parent company shareholders, as is the case in Japan. Rather, it is characterized by the "economic unit concept," which considers the entire corporate group as a single economic unit, and looks at shareholders' equity including both parent company shareholders and minority shareholders who hold shares in subsidiaries, and considers the purpose of the consolidated financial statements to reflect the performance and financial position of the corporate group as a whole.

As a result, primarily in the Asset Management Business, operational investments will now be revaluated through fair value measurements each fiscal year. Therefore, the profit or loss on valuation will be recorded as revenue, and so revenue will be presented on a net basis. This is a major change, as previously under JGAAP, proceeds of the sale of operational investment securities were recorded under sales and shown on a gross basis, with the book value recorded as cost of sales. In addition, measuring fair value every fiscal year means that performance will fluctuate by the influence of the market. Depending on stock market conditions, unsold equity investments will be recorded as either a profit or loss on valuation.

Next, with regard to the partial sales of subsidiaries' shares, transactions with minority shareholders (non-controlling interests), even partial sales of shares in consolidated subsidiaries, will be treated as capital transactions under IFRS and will not be recognized as a profit or loss, as long as the sale does not remove the subsidiary from the scope of consolidation. This is based on the fundamental premise of IFRS that minority shareholders' equity is also shareholders' equity (capital) from the basis of the corporate group.

Lastly, with regard to accounting procedures for goodwill, the impact can be broadly divided into two areas. First, there will be no "amortization of goodwill," but instead an "impairment of assets" will be recognized. The source of goodwill is considered to be the "excess earning power," such as brand value, that has been built up by a company. In European countries with long histories, brand value is seen as accumulating through the passage of time. Therefore, the IFRS, which is heavily influenced by Europe, takes the view that goodwill is fundamentally not something to be amortized, but something that should be written down once its use value is reduced. For SBI Holdings, which recorded approximately ¥8.0 billion annually as "amortization of goodwill" under JGAAP, there will be a significant impact when these expenses are eliminated, but concurrently "asset impairment tests" will be conducted without fail each fiscal year.

Another issue related to goodwill is that it will not be recorded for the acquisition of additional shares in consolidated subsidiaries. That is, when control is acquired and a subsidiary falls under the scope of consolidation, goodwill can be recognized, but when additional shares are acquired after a company has already become a consolidated subsidiary, further goodwill will not be recognized. This differs significantly from JGAAP, as under JGAAP, SBI Holdings had recorded a significant amount of goodwill, partly owing to the conversion of SBI SECURITIES into a wholly-owned subsidiary. However, under IFRS, that goodwill, amounting to approximately ¥80.0 billion, is treated as though it was not recorded, and the capital surplus is decreased by that amount compared to the capital surplus under JGAAP.

Q5. Please explain future developments for the Financial Services Business.

A5. In the domestic Financial Services Business, we are positioning securities, banking, and insurance as the three core businesses that form a "triangle." From this arrangement, we will thoroughly pursue synergies among these businesses, as well as synergies among each of them and their supporting companies.

Developing the Domestic Financial Services Business with a Focus on the Three Core Businesses of Securities, Banking, and Insurance

As mentioned, going forward in the domestic Financial Services Business of the SBI Group, we are positioning securities, banking, and insurance as the three core businesses forming a triangle. As we develop these businesses, we will thoroughly pursue the generation and expansion of synergies among the core businesses, as well as between each of them and the supporting companies that play a complementary role in the business.

A demonstration of the remarkable synergy displayed between core businesses is the "SBI Hybrid Deposit," which links securities and banking at SBI Sumishin Net Bank. This groundbreaking service allows deposits in the SBI Hybrid Deposit at the bank to be allocated to purchase costs for stock trading, collateral required for margin trading, and for the actual receipt of stock purchased at SBI SECURITIES. SBI SECURITIES boasts the highest number of accounts in the Internet securities business, and the convenience offered by SBI Hybrid Deposit has led many SBI SECURITIES customers to open accounts with SBI Sumishin Net Bank. This is a significant synergistic effect that has contributed to a rapid expansion in both the number of accounts and balance of deposits at the bank.

Next, let me discuss the synergy between a core business and its supporting company, as exemplified by the synergies generated in the securities business between SBI SECURITIES and its supporting companies. SBI SECURITIES uses the Smart Order Routing (SOR) system, which places an order at the most favorable market selected from among several different markets. Connecting this system to the Japannext PTS (Proprietary Trading System), which is operated by SBI Japannext, has allowed customers to automatically conduct stock trading at the most favorable market, without having to compare among several different markets. Similarly, SBI SECURITIES is connected to SBI Liquidity Market, which provides the market function for foreign exchange margin (FX) trading, thereby making it possible to conduct FX trading on the basis of high liquidity. In this way, strong synergy flows between the core company, SBI SECURITIES, and its supporting companies.

Re-entry into the Life Insurance Business and Capital Policy in the Insurance Business

The SBI Group is planning to re-enter the life insurance business, and currently moving ahead with the necessary preparations. Shinsai Partners Inc. (currently SBI SSI), which is engaged in the sales of small-amount short-term insurance policies for people affected by earthquakes, was converted into our subsidiary in March 2012. SBI SSI plans to develop new products other than earthquake compensation insurance policies, and is expected to be helpful in terms of assessing the current insurance market trends and customer needs, as we proceed with preparations to re-enter the life insurance business.

It should be noted that the insurance business requires a significant amount of additional capital. Therefore, both the life and nonlife insurance companies will seek to strengthen their profitability, and to mitigate the financial burdens that accompany future capital needs will raise capital and form business tie-ups with strategic partners.

Development of "SBI MONEY PLAZA" Shops as a Common Infrastructure

We will carry out a full scale rollout of SBI MONEY PLAZA shops, the face-to-face channels that serve as a common infrastructure among the three core businesses. As we have stated all along, our goal is to become Japan's largest financial product distributor, offering products from both within and outside the Group on a neutral basis. To that end, we have appointed SBI Holdings Vice President Taro Izuchi as representative of SBI MONEY PLAZA Co., Ltd, as we seek to realize the "integration of online and face-to-face services" on a Group-wide basis, under a new system and management direction at SBI MONEY PLAZA.

Interview with SBI Holdings Vice President Taro Izuchi

Full-scale Deployment the New "SBI MONEY PLAZA"

With SBI MONEY PLAZA Co., Ltd. as the core, we will promote the full-scale rollout of face-to-face channels in the asset management, insurance, and housing loan fields in order to achieve an "integration of online and face-to-face services," and to build a system that will respond to the diverse needs of our customers. Furthermore, we will enhance our sales capacity by transferring the network and sales force of SBI SECURITIES to SBI MONEY PLAZA, to aggressively promote cross selling in order to contribute to the Group's revenues.

Director, Senior Executive Vice President & COO

Taro Izuchi

For complicated or high-priced financial products, online sales alone are not sufficient, and there is a need for face-to-face consultations to explain the product to the customer directly. Until now, the SBI Group had maintained separate operations nationwide for SBI SECURITIES' branches and its network of intermediary financial products service providers and SBI Mortgage's directly operated shops and franchises. Going forward, SBI MONEY PLAZA Co., Ltd. will take the lead in managing the operation of the SBI Group's face-to-face channels, and will seek to "integrate online and face-to-face services" in order to provide a one-stop response for all customer needs.

SBI MONEY PLAZA will not deal separately with asset management, insurance, and housing loans, but will aggressively promote cross selling across all fields. As a face-to-face seller of various financial products, we expect SBI MONEY PLAZA to lead to an increase in contracts and trading at companies such as SBI SECURITIES, SBI Insurance, the new life insurance company now in the planning stages, and SBI Mortgage, thus contributing to the Group's overall revenues.

In particular, we will focus our efforts on the insurance field. By fully capitalizing on SBI MONEY PLAZA's face-to-face sales, and handling a range of products such as highly profitable insurance products from other companies, we are seeking to transform the earnings structure and will link this to making the insurance business profitable at an early date. We also plan to sequentially convert shops that belong to insurance sales operators VL FINANCIAL PARTNERS, Inc. (which operates the Mitsubachi Insurance Firm) and IRRC Corporation (which operates the Insurance Clinic) to SBI MONEY PLAZA shops.

In addition, we will strengthen the sales capacity by transferring the sales force that belonged to SBI SECURITIES to SBI MONEY PLAZA. As sales representatives of SBI MONEY PLAZA, the SBI SECURITIES sales team will utilize the expertise they have accumulated in selling financial products of all types, including insurance and housing loans, as well as securities.

Our target is to open 500 SBI MONEY PLAZA shops nationwide, including directly managed shops and franchises. However, we will be able to hold down our fixed costs, since franchisees will assume the burden of personnel and real-estate costs of the franchise stores.