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The formal official document is in Japanese.



Summary of Consolidated Financial Results for the  
Fiscal Year ended September 30, 2016 (Japanese Accounting Standards)

October 31, 2016

Listed Company Name: MTI Ltd. Listing Exchanges: Tokyo Stock Exchange  
 Securities Code: 9438 URL: <http://www.mti.co.jp>  
 Representative: Toshihiro Maeta, President and Chief Executive Officer  
 Contact: Hiroshi Matsumoto, Director Phone: +81-3-5333-6323  
 Scheduled date of annual meeting of shareholders: December 23, 2016  
 Scheduled date to submit the Securities Report (Yuka Shoken Houkokusho): December 26, 2016  
 Scheduled date of dividend payment: December 26, 2016  
 Supplementary documents for financial results: Yes  
 Quarterly results briefing: Yes (for securities analysts and institutional investors)

(Figures less than one million of yen are omitted)

1. Consolidated business results for the year ended September 30, 2016  
(October 1, 2015 – September 30, 2016)

(1) Consolidated operating results (Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the year ended September 30, 2016	32,844	(1.8)	5,355	26.1	5,310	28.2	3,317	27.2
For the year ended September 30, 2015	33,461	8.0	4,245	66.0	4,144	64.5	2,607	94.9

(Note) Comprehensive income: Year ended September 30, 2016: 3,094 million yen (13.4%)  
 Year months ended September 30, 2015: 2,728 million yen (110.9%)

	Net income per share	Net income per share/diluted	Return on Equity	Return on Assets	Net income
	Yen	Yen	%	%	%
For the year ended September 30, 2016	59.54	58.92	19.9	21.3	16.3
For the year ended September 30, 2015	48.52	47.67	20.6	20.0	12.7

(Reference) Equity in earnings (losses) of affiliates: Year ended September 30 2016: (44) millions of yen  
 Year ended September 30 2015: (95) millions of yen

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Year ended September 30, 2016	25,154	17,852	68.8	311.13
Year ended September 30, 2015	24,738	16,591	64.8	281.48

(Reference) Shareholders' equity: Year ended September 30 2016: 17,306 millions of yen  
 Year ended September 30 2015: 16,034 millions of yen

(3) Consolidated cash flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalent
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
For the year ended September 30, 2016	4,845	(1,327)	(2,469)	12,613
For the year ended September 30, 2015	4,587	(1,707)	3,921	11,608

2. Dividends

	Dividend per share					Amount of dividends paid (Total)	Dividend ratio (Consolidated)	Dividends on equity (Consolidated)
	End of first quarter	End of 2nd period	End of third quarter	Year end	Annual			
	Yen	Yen	Yen	Yen	Yen		%	%
For the year ended September 30, 2015	–	12.00	–	8.00	–	794	28.9	6.0
For the year ended September 30, 2016	–	8.00	–	8.00	16.00	879	26.9	5.4
Year ending 9/17 (forecast)	–	8.00	–	8.00	16.00		35.6	

(Note) Revisions to dividend forecasts published most recently: No

The Company conducted a 2-for-1 common stock split that became effective on April 1, 2015. The dividend per share at the end of the second period of the fiscal year ended September 30, 2015 is calculated based on the number of shares before the stock split, but the year-end dividend per share is calculated based on the number of shares after the stock split.

3. Forecast for consolidated business results for the fiscal year ending September 30, 2017  
(October 1, 2016 – September 30, 2017)

(Percentages represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
For the first half	15,500	(8.8)	1,730	(30.5)	1,700	(30.2)	1,100	(22.8)	19.78
Full year	32,000	(2.6)	4,060	(24.2)	4,000	(24.7)	2,500	(24.6)	44.94

\* Notes

(1) Important changes of subsidiaries during the term (changes in specified subsidiaries resulting in change in scope of consolidation): Not applicable

New: –

Exception: –

(2) Changes in accounting policies and changes or restatement of accounting estimates

- |   |                |
|---|----------------|
| (i) Changes in accounting policies due to the modification in accounting methods: | Yes            |
| (ii) Changes in accounting policies other than (i):                               | Not applicable |
| (iii) Changes in accounting estimates:  | Not applicable |
| (iv) Restatement:   | Not applicable |

(3) Number of outstanding shares (common shares)

- |  |                         |
|--|-------------------------|
| (i) Number of outstanding shares at the end of period (including treasury shares): |                         |
| 9/16: 60,549,200 shares  | 9/15: 60,226,800 shares |
| (ii) Number of treasury shares at the end of period                                |                         |
| 9/16: 4,925,228 shares   | 9/15: 3,260,928 shares  |
| (iii) Average number of shares during the period                                   |                         |
| 9/16: 55,722,667 shares  | 9/15: 53,734,513 shares |

(Reference) Summary of financial results

1. Nonconsolidated financial results for the year ended September 30, 2016  
(From October 1, 2015 - September 30, 2016)

(1) Nonconsolidated operating results (Percentages are shown as year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the year ended September 30, 2016	30,915	(1.2)	5,876	42.4	5,873	42.8	3,658	46.4
For the year ended September 30, 2015	31,297	7.4	4,125	59.3	4,111	58.6	2,499	143.8

	Net income per share	Fully diluted net income per share
	Yen	Yen
For the year ended September 30, 2016	65.66	64.97
For the year ended September 30, 2015	46.52	45.70

(2) Nonconsolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
For the year ended September 30, 2016	24,274	17,573	71.8	313.55
For the year ended September 30, 2015	23,256	15,765	67.2	274.52

(Reference) Shareholders' equity

As of September 30, 2016: 17,440 millions of yen As of September 30, 2015: 15,638 millions of yen

\* Status of review

As of the date of disclosure of this earnings release, an audit of the financial statements is being carried out with the Financial Instruments and Exchange Act.

\* Cautionary statement with respect to forward-looking statements

The forward-looking statements included in this material are based on the Company's judgments, assumptions, and convictions based on information available to the Company at the time of publication of this document and may differ materially from actual results for a range of factors, including

conditions of Japanese and overseas economies, changes in the situation of operations in Japan and overseas, and uncertainties and potential risks inherent in forward-looking statements. The risks and uncertainties include unforeseeable effects of future events. For the assumptions underlying the forecasts and other notice on the use of earnings forecasts, please refer to “(2) Outlook for the next fiscal year” on page 3 in the accompanying material.

The Company will hold a briefing on earnings chiefly for securities analysts and institutional investors on Tuesday, November 1, 2016. A video of the briefing and a document to be used at the briefing will be posted on the Company’s website as soon as the briefing ends.

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## 1. Operating results and financial conditions

### (1) Analysis of operating results

#### 1) Overview of the fiscal year ended September 30, 2016

##### (Period from October 1, 2015 to September 30, 2016)

Smartphone unit sales grew temporarily on the strength of a cash refund campaign launched by cellphone carriers before the abolition of the practice of offering cellphones virtually free of charge in February 2016. However, since the abolition of this practice, smartphone unit sales have remained low.

In this environment, the Company focused on efforts to acquire paying subscribers on smartphones to its content offering high average revenue per user (ARPU) at cellphone shops across Japan and other business locations. However, the number of paying subscribers on smartphones came to 5.69 million at the end of September 2016 (down 0.31 million from the end of September 2015), reflecting the slow pace of acquisition since the second quarter. As a result, the total number of paying subscribers decreased 0.72 million, to 7.22 million at the end of September 2016.

Although the total number of paying subscribers declined year on year, the ARPU of paying subscribers on smartphones, primarily subscribers to music.jp, a video distribution service whose product lineup has expanded, maintained an upward trend. As a result, net sales and gross profit declined only slightly to 32,844 million yen (down 1.8% year on year) and to 27,490 million yen (down 1.9% year on year).

Operating income, ordinary income and profit attributable to owners of parent each hit a record high, standing at ¥5,355 million (up 26.1% year on year), ¥5,310 million (up 28.2% year on year) and ¥3,317 million (up 27.2% year on year), respectively. These results reflected a decline in selling, general and administrative expenses (SG&A) mainly attributable to a significant year on year drop in advertising expenses associated with the sluggish pace of the acquisition of paying subscribers.

#### Consolidated operating results (Period from October 1, 2015 to September 30, 2016)

	Fiscal year ended September 30, 2016	Fiscal year ended September 30, 2015	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Net sales	32,844	33,461	(617)	(1.8)
Cost of sales	5,353	5,439	(85)	(1.6)
Gross profit	27,490	28,022	(531)	(1.9)
SG&A	22,135	23,776	(1,641)	(6.9)
Operating income	5,355	4,245	+1,110	+26.1
Ordinary income	5,310	4,144	+1,166	+28.2
Profit attributable to owners of parent	3,317	2,607	+710	+27.2

Note: Figures are rounded down to the nearest millions of yen.

#### Breakdown of SG&A (Period from October 1, 2015 to September 30, 2016)

	Fiscal year ended September 30, 2016	Fiscal year ended September 30, 2015	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Total	22,135	23,776	(1,641)	(6.9)
Advertising expenses	7,607	9,077	(1,469)	(16.2)
Personnel expenses	5,637	5,770	(132)	(2.3)
Commission fee	3,741	3,727	+13	+0.4
Subcontract expenses	1,456	1,326	+129	+9.8
Depreciation	1,272	1,318	(46)	(3.5)
Other	2,420	2,555	(135)	(5.3)

**2) Outlook for the next fiscal year  
(Period from October 1, 2016 to September 30, 2017)**

In the fiscal year ending September 2017, the Company will work to maintain the total number of paying subscribers by continuing to focus on acquiring paying subscribers on smartphones and will strive to increase average revenue per user (ARPU).

Faced with the ongoing stagnation in sales of smartphones, the Company will continue promoting the sales of its content offering high ARPU by making the most of its strong sales channels, which consist of cellphone shops throughout Japan that promote the sales of content to customers. By promoting cooperation with MVNOs (\*), the Company will also work to acquire paying subscribers on smartphones.

In the healthcare-related service business, which the Company is approaching with a medium- to long-term perspective, the Company will pursue a number of strategies to increase sales. This business has tremendous potential for future growth and is expected to shift to a stock-type business with long-term support over the various life stages of customers.

Specifically, the Company will take the following steps:

The Company will work to increase the number of corporate contracts for CARADA package services for corporate customers and expand sales of the services by strengthening sales through dealers, or companies operating cellphone shops nationwide, and the Company's direct sales.

A Group company provides training management services and will work to increase the number of orders through aggressive sales to incorporate schools and fitness clubs and the support of exercise management and health management in club activities and at sports teams.

The Company will work to expand the number of contracts with local governments nationwide for the electronic maternal and child health handbook service by strengthening its sales system for local governments and increasing demand for the service from local governments, expectant and nursing mothers, and families with small children through the continuous enhancement of the functions of the service, including the management of protective inoculation.

\* MVNO is an abbreviation for mobile virtual network operator. An MVNO provides mobile network services, such as cellphones and PHS, through its own brands. It does not develop or manage wireless communication link facilities.

**Earnings forecast for the six months of the fiscal year ending September 30, 2017**

(Period from October 1, 2016 to March 31, 2017)

Consolidated profit and loss		
Net sales	15,500 millions of yen	( an decrease of 8.8% y-o-y)
Operating income	1,730 millions of yen	( an decrease of 30.5% y-o-y)
Ordinary income	1,700 millions of yen	( an decrease of 30.2% y-o-y)
Profit attributable to owners of parent	1,100 millions of yen	( an decrease of 22.8% y-o-y)

**Earnings forecast for the fiscal year ending September 30, 2017**

(Period from October 1, 2016 to September 30, 2017)

Consolidated profit and loss		
Net sales	32,000 millions of yen	( an decrease of 2.6% y-o-y)
Operating income	4,060 millions of yen	( an decrease of 24.2% y-o-y)
Ordinary income	4,000 millions of yen	( an decrease of 24.7% y-o-y)
Profit attributable to owners of parent	2,500 millions of yen	( an decrease of 24.6% y-o-y)

## (2) Analysis of financial conditions

### 1) Analysis of financial conditions in the current fiscal year

#### a) Assets, liabilities and net assets

At the end of the fiscal year under review, total assets rose ¥415 million from the end of September 2015, to ¥25,154 million.

Current assets decreased ¥159 million, mainly due to falls in notes and accounts receivable-trade and accounts receivable-other, despite an increase in cash and deposits. Non-current assets increased ¥575 million, chiefly reflecting rises in software and investment securities.

Current liabilities shrank ¥1,044 million as a result of factors such as falls in the current portion of long-term loans payable and accounts payable-other. Non-current liabilities grew ¥199 million, primarily owing to an increase in net defined benefit liability.

Net assets increased ¥1,261 million, mainly attributable to the disposal of treasury stock and ¥3,317 million posted as profit attributable to owners of parent, offsetting the purchase of treasury stock and cash dividends paid.

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2016	25,154	17,852	68.8
As of September 30, 2015	24,738	16,591	64.8

#### b) Cash flows

At the end of the fiscal year under review, cash and cash equivalents were ¥12,613 million, representing an increase of ¥1,004 million from the end of September 2015. Cash flows by activities and principal factors in the fiscal year under review were as follows.

Net cash provided by operating activities was ¥4,845 million (inflow of ¥4,587 million for the previous fiscal year). This is mainly a reflection of income before income taxes and depreciation, thereby offsetting income taxes paid.

Net cash used in investing activities stood at ¥1,327 million (outflow of ¥1,707 million for the previous fiscal year). Principal factors included the purchase of intangible assets (mainly software), which offset proceeds from sales of investment securities.

Net cash used by financing activities came to ¥2,469 million (inflow of ¥3,921 million for the previous fiscal year). Principal factors included the purchase of treasury shares and the payment of cash dividends, which offset proceeds from sales of treasury shares.

#### (Reference) Cash flows indicators

	Fiscal year ended September 30, 2012	Fiscal year ended September 30, 2013	Fiscal year ended September 30, 2014	Fiscal year ended September 30, 2015	Fiscal year ended September 30, 2016
Equity ratio (%)	61.9	53.7	55.4	64.8	68.8
Equity ratio based on market value (%)	69.5	73.0	161.0	188.6	137.3
Ratio of cash flows to interest-bearing liabilities (%)	6.0	16.6	13.9	13.0	-
Interest coverage ratio (times)	273.6	570.6	616.6	1414.4	2,223.9

Equity ratio: Shareholders' equity / Total assets

Equity ratio based on market value: Market capitalization / Total assets

Ratio of cash flows to interest-bearing liabilities: Interest-bearing liabilities / Net cash provided by operating activities

Interest coverage ratio: Net cash provided by operating activities / Interest payments

Notes:

1. These indicators are calculated based on consolidated financial results.
2. Cash flows refers to net cash provided by operating activities in the consolidated statements of cash flows.
3. Interest-bearing liabilities refer to all liabilities in the consolidated balance sheet for which interest is paid. Interest payment refers to the interest payment amount in the consolidated cash flows statement.

## 2) Financial outlook for the next fiscal year

### a) Assets, liabilities and net assets

The Company expects assets, liabilities, and net assets at the end of the fiscal year ending September 2017 to be greater than those at the end of the fiscal year under review.

Total assets are expected to increase, mainly reflecting an increase in cash and deposits.

Total liabilities are expected to rise chiefly due to an increase in net defined benefit liability.

Total net assets are expected to climb due to the recording of a profit attributable to owners of parent, even though dividends will be paid.

#### **b) Cash flows**

The Company expects cash and cash equivalents at the end of the fiscal year ending September 2017 to be greater than those at the end of the fiscal year under review.

Net cash is expected to be provided by operating activities. This is mainly a reflection of income before income taxes and depreciation, thereby offsetting income taxes payable.

Net cash is expected to be used by investing activities, largely because of the purchase of intangible assets (mainly software).

Net cash is expected to be used by financing activities, chiefly for the payment of cash dividends.

#### **(3) Basic policy regarding profit distribution to shareholders and dividends for the current fiscal year and the next fiscal year**

Key issues identified by the Company include enhancing market capitalization through the creation and the expansion of corporate value, and the continual distribution of dividends.

In distributing profits, the Company aims to provide shareholder returns with a total target payout ratio (\*) of 35% in the medium term. To achieve this goal, the Company will remain true to its basic capital policy of achieving sustainable growth over the medium and long terms in net sales and income while returning profits to shareholders, and will work to secure a sufficient amount of internal reserves to carry out aggressive business development in the future.

With respect to the year-end dividend payments for the fiscal year under review, the Company will pay ¥8 yen per share as forecast. The Company posted record income for the consolidated full-year results but expects a decrease in income in the next consolidated fiscal year. The Company also takes into consideration the purchase of treasury stock in the fiscal year under review. As a result, annual dividends are expected to be ¥16 per share (an increase of ¥2 per share over the previous fiscal year).

As for the payment of dividends in the next fiscal year, the Company expects to pay annual dividends of ¥16 per share, with interim dividends of ¥8 per share and year-end dividends of ¥8.

\* The ratio of total dividends paid and purchase of treasury shares to consolidated net income

Total dividends paid (1)	Acquisition of treasury stock (2)	Net income (3)	Total payout ratio [(1) + (2)] / (3)
879 millions of yen	1,078 millions of yen	3,317 millions of yen	59.0%

#### **(4) Business risks**

We are providing the main items viewed as potential risk factors for our business development. Items that are not necessarily risk factors for our business development but that are important and useful for making investment judgments and items important for understanding our business activities are actively disclosed to investors.

We are aware of the possibility of these risks occurring, and we will work to prevent them and will respond promptly if they should occur. However, decisions on investment in shares in the Company need to be made in careful consideration of these items and items contained in this report. Furthermore, please keep in mind that the items mentioned below do not cover all possible risks associated with investing in our shares.

Items regarding the future are based on assessments we have made as of the time of releasing our financial results (October 31, 2016).

##### **1) Over-reliance on certain individuals**

President and Chief Executive Officer Toshihiro Maeta plays a central role in creating new business models and plays an important role in promoting operations. To create a management structure that does not depend excessively on President Maeta, we are working to cultivate human resources. However if Mr. Maeta is ever unable to perform his duties for some reason, our results may be impacted significantly.



## **2) Unexpected changes in the business environment**

In our core mobile content business, actual net sales, cost of sales, selling, general and administrative expenses, and other results may differ significantly from our current forecasts for the reasons below. In this case, we could be forced to change our management policy and strategy, which could have a significant impact on our results.

- a) Changes in the market environment result in factors of uncertainty that could not be foreseen when making business plans. Such changes could include the increase in paid subscribers for smartphone services falling well below our targets, or the decrease in paid subscribers for feature phone services being much bigger than expected, or the utilization of paid contents declining and user preferences changing rapidly due to the emergence of free contents.
- b) We are unable to differentiate ourselves from competing companies in terms of content material, quality or price, and therefore are unable to acquire the target number of paid subscribers. Either that, or the competition for new subscribers with competing firms becomes sharper and price competition intensifies, which causes subscribers to our services to replace them with services of competitors or makes it harder to maintain cost competitiveness and secure the target number of paid subscribers.
- c) Technical innovations proceed at a rapid pace and there are changes to the development/provision of services that meet the needs of smartphone users. The form of income and services/technologies become obsolete due to delays in responding to the advancing technologies. Content production costs increase more than expected, an efficient development system for content development cannot be maintained and earnings cannot be secured.
- d) Cannot obtain the target number of paid subscribers due to a sudden saturation/reduction of the mobile contents market, or because advertising could not produce the desired impact on sales due to a drastic change in the way paid subscribers are gained, among other factors, or obtaining profit becomes difficult due to a bigger-than-expected increase in cost for acquiring contents.
- e) As for the fee-based billing services provided by the Company or those the Company handles for other companies, the percentage of subscribers obtained through cellphone shops across Japan, its mainstay sales channel for mobile devices, is extremely high. As a result, it may become difficult to secure additional new subscribers if the roles of the sales channel change dramatically for various reasons, such as the introduction of legal restrictions and administrative guidance, the imposition of restrictions by cellphone carriers, and changes in the business environment.
- f) In the fee-based billing services provided by the Company or those the Company handles for other companies, the number of new subscribers tends to change when cellphone carriers launch new models of mobile devices (sales seasons are usually in March, July, August and December). As a result, it may become difficult to secure additional new subscribers if the effects of new model launches during sales seasons for mobile devices are less than expected or if no effects of new model launches are expected.
- g) We engage in the healthcare-related information service business, the market for which is expected to expand in the future and which is believed to have high growth potential over the medium to long terms. However, it is difficult to forecast the impact of the business and an unexpected change may result in our failure to achieve the initial business plan or create the expected effect, with the result that earnings may not justify the prior investment.
- h) Laws and regulation that could be relevant to our industry include the Act against Unjustifiable Premiums and Misleading Representations, Unfair Competition Prevention Act, Consumer Contract Act, Act on the Protection of Personal Information, Act on Specified Commercial Transactions, Medical Care Act, Pharmaceutical Affairs Act, Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors, Antimonopoly Act, and Act on Regulation on Soliciting Children by Using Opposite Sex Introducing Service on Internet.

## **3) Dependence on specific businesses**

As below in the last two consolidated fiscal years, the Company depended heavily on cellphone carriers in terms of sales: The ratio of sales to cellphone carriers accounted for a high percentage of total sales. If cellphone carriers change their policies on Internet connection services, the Company's results and future business development could be seriously impacted.

Client	Fiscal year ended September 30, 2015		Client	Fiscal year ended September 30, 2016	
	Amount (thousand yen)	Ratio(%)		Amount (thousand yen)	Ratio(%)
NTT DOCOMO, INC.	18,302,589	54.7	NTT DOCOMO, INC.	18,766,284	57.1
KDDI CORPORATION	8,111,366	24.2	KDDI CORPORATION	7,798,686	23.7
SoftBank Corp.	2,493,734	7.5	SoftBank Corp.	1,937,673	5.9

(Note) Consumption tax is not included in the above amounts.

#### **4) Content provided by content holders**

Copyright licenses for much digital content, including music, books, video and others, are held exclusively by content holders. If copyright license agreements with content holders are amended or terminated and we are no longer able to provide popular content, we will not be able to obtain the content from other sources and our results could be seriously impacted.

#### **5) Hiring, retaining, and cultivating human resources**

As described in Issues to address, the Company continues to enhance its marketing capacity, quality control capacity, development capacity, design capacity, and sales capacity to expand operations and achieve sustainable growth. If we cannot hire, retain, and cultivate human resources with high skills for enhancing those capacities, our results could be seriously impacted.

#### **6) Information networks become inoperable**

Our operations use communication lines and information systems. If they cannot be used for a long period due to the disconnection of communication lines caused by natural disasters or accidents, systems going down due to a greater-than-expected surge in access, viruses, or the hacking of computers, we could be forced to suspend operations, which could seriously impact our results.

#### **7) Personal information leaks**

We thoroughly protect personal information by building a tight control system to ensure information security, developing rules and regulations on the handling of information, and providing education and training for our employees and business partners. However, if a problem arises due to a personal information leak, our results could be seriously impacted.

#### **8) Intellectual property right infringement**

We are always careful not to infringe on a third party's intellectual property rights. However, we may infringe on a third party's intellectual property rights without realizing it. If we have to pay damages or suffer other losses as a result of a third party's claim for damages or filing an injunction or other lawsuits, our results could be seriously impacted.

#### **9) Uncollected charges**

We commission chiefly cellphone carriers to collect monthly charges from paid subscribers. If the continuance of agreements with carriers becomes difficult or fees for the collection of charges change due to changes in their business strategies, among other reasons, or if uncollected charges increase under some circumstances, our results could be impacted.

#### **10) Ensuring the security and health of websites**

We provide certain services that allow the general public to communicate with each other using the services' messaging functions. If any major trouble occurs due to a violation of the terms of use, among other reasons, the Company could be held responsible or the credibility and image of the Company's services could decline, which could impact the Company's results.

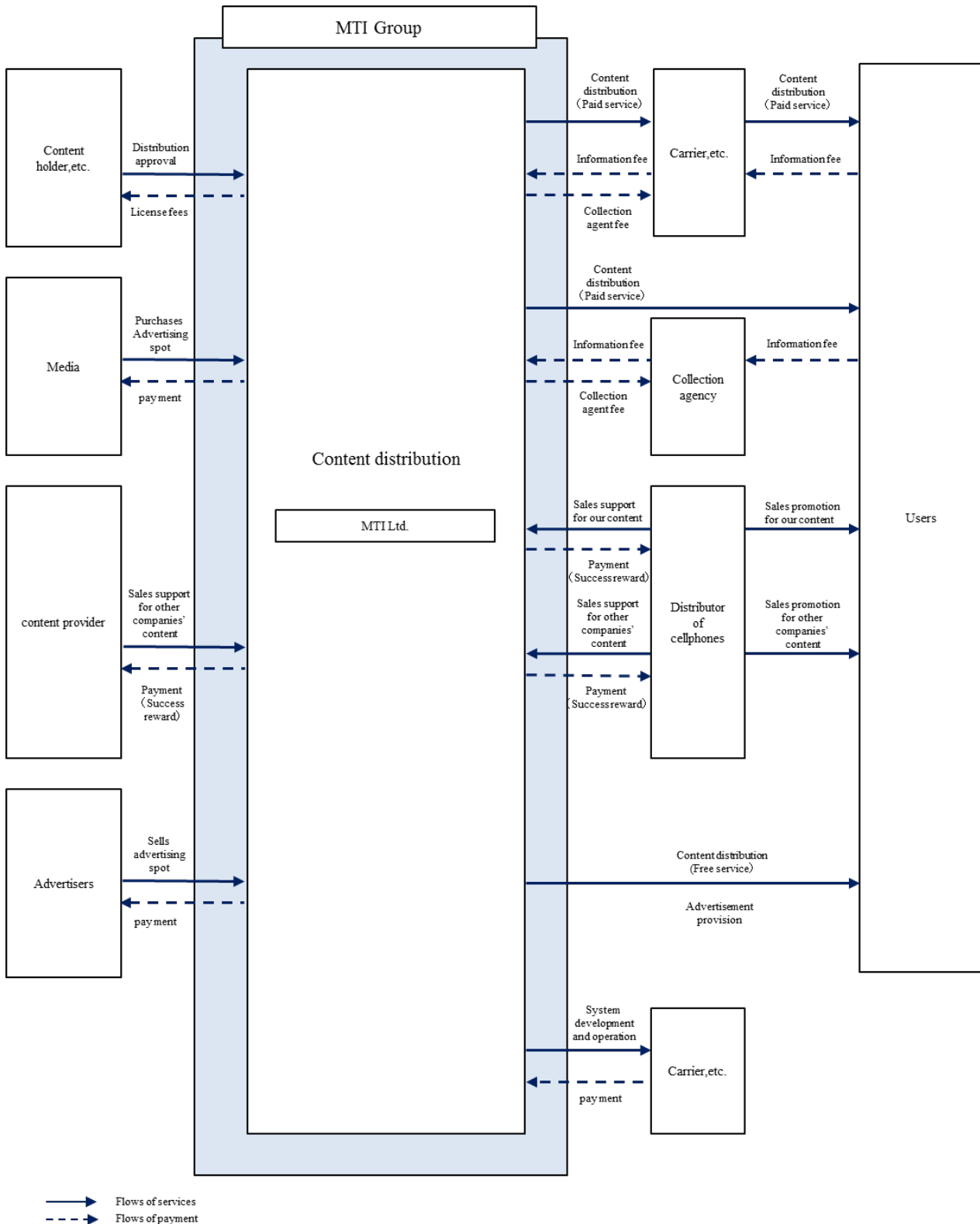
## 2. Business group

As of September 30, 2016 our business group consisted of 22 companies made up of MTI and affiliated companies, is primarily involved in the contents business. A general overview of the group is provided below.

### (1) Description of business

Contents distribution	MTI Ltd.
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### (2) Business distribution diagram



### **3. Management policy**

#### **(1) Basic management policy**

The Company aims to help realize the future society that will be brought about by mobile devices. To this end, it will continually provide customers with user-friendly services that employ cutting-edge technologies and offer satisfactory quality and product variety by extensively understanding their views and expectations. The Company also aims to position itself as lifelong friend that customers can continually call upon by offering emotionally-moving experiences, and become a “mobile dream factory” that produces a series of services which make customers’ dreams come true and their lives more convenient and enriching.

#### **(2) Target management indexes**

The rate of sales growth and the degree of improvement in operating income ratio are important management indexes for us here at MTI. We aim to continuously raise corporate value by always improving these indexes. To achieve sustainable growth, the Company will enhance its capabilities in marketing, quality control, the development of products and services, design, and sales. By continuing to improve these capabilities that are essential for business expansion, it seeks to address changes in market environments and customer needs flexibly.

#### **(3) Medium- to long-term management strategy**

Our strategy is to use a portion of the stable earnings generated by our content distribution business to invest in fields with high growth potential with the aim of fostering new fields capable of generating steady earnings. At the same time, we will invest in fields expected to have large markets and high growth.

We will strive to increase the added value of services as the smartphone service market is becoming mature. Meanwhile, we aggressively work to create business opportunities by developing new services. We will work to realize sustained sales growth and continuous profit growth.

Medium- to long-term management strategies for each category are explained below

##### **a) Improvement in average revenue per user (ARPU) in the content business**

With the penetration rate of smartphones reaching a high level, the Company will work to provide services that are easier to use and understand and services that offer added value that is greater than that of the current services.

Music, books, comics and video are uniquely popular among customers. That being said, the Company expects that the video-streaming market will continue to grow. To improve ARPU, it is therefore seeking to enhance the lineup of video content through an increase in the number of Hollywood movie titles.

##### **b) Strengthening of the Real Affiliate (RAF) Network**

The sales channel (RAF network), through which cellphone shops encourage customers visiting them to subscribe to MTI’s own or other companies’ content, enjoys the largest and most overwhelming operation scale among the same type of businesses owing to the expansion of transactions with cellphone shops nationwide.

The RAF network was established to encourage customers to subscribe to MTI’s content. The Company successfully launched the business by including other companies’ content in the service. The Company will use the network as a sales channel to expand its healthcare service.

##### **c) Initiatives in the Healthcare-related business**

The Company seeks to operate the healthcare-related service business from a medium-term perspective, given the sector’s growth potential and the possibility of developing a service that will be used by customers as a “lifetime friend.”

The Company provides an array of services related to healthcare and will work to make each service profitable as soon as possible. At the same time, the Company will strive to establish services convenient for customers by facilitating collaboration between and the integration of services.

#### **(4) Issues to address**

##### **1) Enhancing marketing capacity**

Customer needs are continuously changing and becoming more varied due to the evolution of mobile devices and the expanding base of mobile content users. We realize the importance of constructing a system for continuously improving our marketing capacity by accurately grasping these trends and delivering contents with a high degree of customer satisfaction.

To this end we have strengthened organizational systems for our marketing divisions, bolstered personnel with specialized capacity and promoted the education and training of personnel by enhancing in-house training systems. These steps are allowing us to make marketing capacity, one of our strengths, even stronger.

## **2) Enhancing quality control capacity**

We are aware that in order to encourage customers to use mobile contents on a continuing basis, customer needs obtained from marketing research must of course be reflected in the actual sites. We are also aware of the importance of building a strong quality control system in order to provide a product line up and a level of quality that will satisfy these customers.

To this end we have clarified the procedures and quality standards for each step in the production of our content materials, while conducting thorough management of these steps. At the same time we have made continuous improvements through the training and education of personnel as well as through PDCA activities, while building a system for the efficient production of high-quality content materials.

## **3) Enhancing development capacity**

We will be able to provide mobile content services with even higher added value as mobile handsets become even more advanced and as the speed and capacity of communication infrastructures increase. Building a high quality technical development system will be essential for continuing to win the support of customers well into the future. To promote development methods that can quickly and flexibly respond to changes in the technological environment, we are working to acquire and develop skilled personnel, while raising the technical skill levels of all development personnel. We will also promote offshore development to realize a high-quality and efficient system.

## **4) Enhancing design capacity**

Services for smartphones allow for improved contents operability and greater expression. We realize that it is important to have a system in place for providing high quality designs, an extremely important point when customers select which services they will use.

Therefore, we are researching user interfaces and customer preferences, while working to acquire and develop highly skilled personnel. In this manner we are building a system capable of providing high quality designs.

## **5) Enhancing the sales capacity**

The acquisition of subscribers through cellphone shops nationwide, the mainstay sales channel of mobile devices, has proved to be the most efficient method for acquiring paying subscribers on smartphones on a monthly billing basis. Thus, the Company believes that it is important to develop cellphone shops that promote the sales of the Company's own content and the content that it handles for other companies.

For these reasons, the Company will take initiatives to establish a business structure capable of providing more meticulous support to cellphone shops nationwide. These initiatives include establishing sales offices in major cities outside the Tokyo metropolitan area which have a large number of cellphone shops, and by focusing on securing, training, and developing human resources with superior sales skills.

#### **4. Basic policy for the selection of accounting standards**

The Group intends to compile its consolidated financial statements based on the Japanese accounting standard for the time being, considering the possibility of comparing the terms of financial statements and performances between companies. It will adopt the International Financial Reporting Standards (IFRS), factoring in the situations in Japan and abroad.

**5. Consolidated financial statements**  
**(1) Consolidated balance sheet**

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2015)	Current fiscal year (As of September 30, 2016)
<b>Assets</b>		
Current assets		
Cash and deposits	11,608,562	12,613,012
Notes and accounts receivable-trade	6,885,765	6,163,789
Advance payments-trade	101,422	395,840
Prepaid expenses	349,083	396,234
Accounts receivable-other	841,190	84,672
Income taxes receivable	—	4,480
Deferred tax assets	358,149	316,742
Other	138,341	141,967
Allowance for doubtful accounts	(71,095)	(65,095)
Total current assets	20,211,420	20,051,644
Non-current assets		
Property, plant and equipment		
Facilities attached to Buildings	331,197	327,800
Accumulated depreciation	(239,325)	(251,900)
Facilities attached to Buildings, net	91,871	75,899
Tools, furniture and fixtures	303,237	357,048
Accumulated depreciation	(248,620)	(253,924)
Tools, furniture and fixtures, net	54,617	103,123
Total property, plant and equipment	146,488	179,023
Intangible assets		
Software	2,254,746	2,462,449
Goodwill	336	14,898
Other	22,168	26,837
Total intangible assets	2,277,251	2,504,185
Investments and other assets		
Investment securities	796,241	1,054,687
Lease and guarantee deposits	501,636	494,963
Deferred tax assets	792,649	853,155
Other	30,145	34,048
Allowance for doubtful accounts	(17,589)	(17,519)
Total investments and other assets	2,103,083	2,419,334
Total non-current assets	4,526,824	5,102,543
Total assets	24,738,244	25,154,188

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2015)	Current fiscal year (As of September 30, 2016)
<b>Liabilities</b>		
Current liabilities		
Accounts payable-trade	1,179,484	1,177,351
Current portion of long-term loans payable	518,679	—
Accounts payable-other	2,571,997	2,290,594
Accrued expenses	448,157	470,641
Income taxes payable	1,354,619	1,343,684
Accrued consumption taxes	368,952	289,047
Allowance for coin usage	234,836	188,361
Provision for directors' bonuses	29,673	50,824
Other	487,313	338,318
Total current liabilities	7,193,715	6,148,824
Non-current liability		
Long-term loans payables	79,925	—
Net defined benefit liability	832,740	1,099,402
Negative goodwill	40,541	31,423
Other	141	21,587
Total non-current liabilities	953,349	1,152,413
<b>Total liabilities</b>	<b>8,147,064</b>	<b>7,301,237</b>
Net assets		
Shareholders' equity		
Capital stock	4,947,984	5,012,181
Capital surplus	5,469,051	5,834,419
Retained earnings	6,300,484	8,727,679
Treasury shares	(695,491)	(2,148,888)
Total shareholders' equity	16,022,029	17,425,392
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	83,691	65,027
Foreign currency translation adjustment	(7,837)	(42,706)
Remeasurements of defined benefit plans	(62,969)	(141,548)
Total accumulated other comprehensive income	12,884	(119,227)
Subscription rights to shares	127,100	132,236
Non-controlling interests	429,165	414,550
<b>Total net assets</b>	<b>16,591,180</b>	<b>17,852,951</b>
<b>Total liabilities and net assets</b>	<b>24,738,244</b>	<b>25,154,188</b>



**(2) Consolidated statement of income and consolidated comprehensive income**  
**Consolidated statement of income**

(Unit: thousands of yen)

	Previous fiscal year (from October 1, 2014 to September 30, 2015)	Current fiscal year (from October 1, 2015 to September 30, 2016)
Net sales	33,461,440	32,844,230
Cost of sales	5,439,149	5,353,409
Gross profits	28,022,291	27,490,821
Selling, general and administrative expenses	23,776,605	22,135,122
Operating income	4,245,685	5,355,698
Non-operating income		
Interest income	257	187
Dividend income	6,060	6,206
Amortization of negative goodwill	9,117	9,117
Compensation income	12,118	—
Subsidy income	8,983	1,377
Other	19,718	8,772
Total non-operating income	56,255	25,661
Non-operating expenses		
Interest expenses	4,689	2,178
Share of loss of entities accounted for using equity method	95,780	44,873
Share issuance cost	24,815	2,240
Foreign exchange losses	8,477	11,245
Other	23,912	9,860
Total non-operating expenses	157,674	70,398
Ordinary income	4,144,266	5,310,961
Extraordinary income		
Gain on step acquisitions	33,509	—
Gain on sales of non-current assets	15,011	4,592
Gain on sales of investment securities	734,287	—
Gain on sales of shares of subsidiaries and associates	7,106	—
Gain on reversal of subscription rights to shares	17,705	20,230
Total extraordinary income	807,621	24,823
Extraordinary losses		
Loss on retirement of noncurrent assets	5,183	—
Impairment loss	142,579	—
Loss on retirement of noncurrent assets	74,287	37,440
Loss on valuation of investment securities	39,999	100,000
Amortization of goodwill	227,551	—
Settlement package	15,147	—
Total extraordinary losses	504,750	137,440
Income before income taxes	4,447,136	5,198,344
Income taxes-current	1,673,359	1,931,402
Income taxes-deferred	78,974	22,728
Total income taxes	1,752,334	1,954,130
Profit	2,694,801	3,244,214
Profit (loss) attributable to non-controlling interests	87,370	(73,520)
Profit attributable to owners of parent	2,607,431	3,317,734

## Consolidated statement of comprehensive income

(Unit: thousands of yen)

	Previous fiscal year (from October 1, 2014 to September 30, 2015)	Current fiscal year (from October 1, 2015 to September 30, 2016)
Profit	2,694,801	3,244,214
Other comprehensive income		
Valuation difference on available-for-sale securities	9,450	(20,789)
Foreign currency translation adjustment	15,067	(47,475)
Remeasurements of defined benefit plans, net of tax	7,010	(78,579)
Share of other comprehensive income of entities accounted for using equity method	1,957	(3,124)
Total other comprehensive income	33,484	(149,968)
Comprehensive income	2,728,286	3,094,246
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	2,647,831	3,185,622
Comprehensive income attributable to non-controlling interests	80,454	(91,376)

### (3) Consolidated statement of changes in equity

Previous fiscal year (from October 1, 2014 to September 30, 2015)

(Unit: thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	2,596,342	3,111,863	4,305,998	(695,491)	9,318,712
Cumulative effects of changes in accounting policies			39,723		39,723
Restated balance	2,596,342	3,111,863	4,345,721	(695,491)	9,358,436
Changes of items during period					
Issuance of new shares exercise of subscription rights to shares	2,351,641	2,351,641			4,703,282
Dividends of surplus			(641,261)		(641,261)
Profit attributable to owners of parent			2,607,431		2,607,431
Purchase of treasury shares					—
Disposal of treasury shares					—
Changes of scope of consolidation			(11,406)		(11,406)
Increase (decrease) consolidated subsidiaries					—
Other		5,547			5,547
Net changes of items other than shareholders' equity					
Total changes of items during period	2,351,641	2,357,188	1,954,763	—	6,663,593
Balance at end of current period	4,947,984	5,469,051	6,300,484	(695,491)	16,022,029

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total other accumulated comprehensive income			
Balance at beginning of current period	74,198	(31,735)	(69,979)	(27,516)	206,905	224,667	9,722,770
Cumulative effects of changes in accounting policies							39,723
Restated balance	74,198	(31,735)	(69,979)	(27,516)	206,905	224,667	9,762,493
Changes of items during period							
Issuance of new shares exercise of subscription rights to shares							4,703,282
Dividends of surplus							(641,261)
Profit attributable to owners of parent							2,607,431
Purchase of treasury shares							—
Disposal of treasury shares							—
Changes of scope of consolidation							(11,406)
Increase (decrease) consolidated subsidiaries							—
Other							5,547
Net changes of items other than shareholders' equity	9,492	23,897	7,010	40,400	(79,805)	204,497	165,093
Total changes of items during period	9,492	23,897	7,010	40,400	(79,805)	204,497	6,828,686
Balance at end of current period	83,691	(7,837)	(62,969)	12,884	127,100	429,165	16,591,180

Current fiscal year (from October 1, 2015 to September 30, 2016)

(Unit: thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	4,947,984	5,469,051	6,300,484	(695,491)	16,022,029
Cumulative effects of changes in accounting policies					—
Restated balance	4,947,984	5,469,051	6,300,484	(695,491)	16,022,029
Changes of items during period					
Issuance of new shares exercise of subscription rights to shares	64,197	64,197			128,394
Dividends of surplus			(890,539)		(890,539)
Profit attributable to owners of parent			3,317,734		3,317,734
Purchase of treasury shares				(1,955,144)	(1,955,144)
Disposal of treasury shares		374,552		501,747	876,300
Changes of scope of consolidation					—
Increase (decrease) consolidated subsidiaries		(73,381)			(73,381)
Other					—
Net changes of items other than shareholders' equity					
Total changes of items during period	64,197	365,367	2,427,194	(1,453,396)	1,403,362
Balance at end of current period	5,012,181	5,834,419	8,727,679	(2,148,888)	17,425,392

	Accumulated other comprehensive income				Subscription rights to Shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total other accumulated comprehensive income			
Balance at beginning of current period	83,691	(7,837)	(62,969)	12,884	127,100	429,165	16,591,180
Cumulative effects of changes in accounting policies							—
Restated balance	83,691	(7,837)	(62,969)	12,884	127,100	429,165	16,591,180
Changes of items during period							
Issuance of new shares exercise of subscription rights to shares							128,394
Dividends of surplus							(890,539)
Profit attributable to owners of parent							3,317,734
Purchase of treasury shares							(1,955,144)
Disposal of treasury shares							876,300
Changes of scope of consolidation							—
Increase (decrease) consolidated subsidiaries							(73,381)
Other							—
Net changes of items other than shareholders' equity	(18,663)	(34,869)	(78,579)	(132,112)	5,135	(14,615)	(141,591)
Total changes of items during period	(18,663)	(34,869)	(78,579)	(132,112)	5,135	(14,615)	1,261,771
Balance at end of current period	65,027	(42,706)	(141,548)	(119,227)	132,236	414,550	17,852,951

**(4) Consolidated statement of cash flows**

(Unit: thousands of yen)

	Previous fiscal year (from October 1, 2014 to September 30, 2015)	Current fiscal year (from October 1, 2015 to September 30, 2016)
Cash flows from operating activities		
Income before income taxes	4,447,136	5,198,344
Depreciation	1,348,744	1,369,002
Impairment loss	142,579	—
Amortization of goodwill	286,973	1,690
Amortization of negative goodwill	(9,117)	(9,117)
Increase (decrease) in allowance for doubtful accounts	(42,221)	(5,169)
Increase (decrease) in allowance for coin usage	(42,611)	(46,475)
Increase (decrease) in net defined benefit liability	122,687	139,781
Interest and dividend income	(6,318)	(6,393)
Interest expenses	4,689	2,178
Loss (gain) on step acquisitions	(33,509)	—
Share of (profit) loss of entities accounted for using equity method	95,780	44,873
Share issuance cost	24,815	—
Settlement package	15,147	—
Loss on retirement of noncurrent assets	74,287	37,440
Loss (gain) on sales of non-current assets	(9,827)	(4,592)
Loss (gain) on valuation of investment securities	39,999	100,000
Loss (gain) on sales of investment securities	(734,287)	—
Loss (gain) on sales of shares of subsidiaries and associates	(7,106)	—
Gain on reversal of subscription rights to shares	(17,705)	(20,230)
Decrease (increase) in notes and accounts receivable-trade	(604,616)	709,926
Decrease (increase) in advance payments	38,356	(294,418)
Decrease (increase) in prepaid expenses	122,376	(48,704)
Decrease (increase) in accounts receivable-other	(775,180)	22,230
Increase (decrease) in notes and accounts payable-trade	202,106	(2,133)
Increase (decrease) in accounts payable-other	206,900	(269,618)
Increase (decrease) in accrued expenses	5,887	23,125
Increase (decrease) in accrued consumption taxes	52,376	(79,905)
Other, net	609,039	(26,966)
Subtotal	5,557,383	6,834,868
Interest and dividend income received	6,318	6,393
Interest expenses paid	(3,243)	(2,178)
Income taxes (paid) refund	(973,267)	(1,993,336)
Net cash provided by (used in) operating activities	4,587,190	4,845,747

(Unit: thousands of yen)

	Previous fiscal year (from October 1, 2014 to September 30, 2015)	Current fiscal year (from October 1, 2015 to September 30, 2016)
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(34,741)	(62,957)
Proceeds from sales property, plant and equipment	66	—
Purchase of intangible assets	(1,394,157)	(1,754,865)
Proceeds from sales of intangible assets	—	211,827
Purchase of investment securities	(106,690)	(223,088)
Proceeds from sales of investment securities	—	734,287
Purchase of shares of subsidiaries and associates	(60,867)	(213,500)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(68,933)	—
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	987	—
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(21,998)	—
Payments for transfer of business	—	(17,500)
Proceeds from collection of lease and guarantee deposits	511	1,330
Other, net	(21,516)	(2,737)
Net cash provided by (used in) investing activities	(1,707,341)	(1,327,202)
<b>Cash flows from financing activities</b>		
Repayments of long-term loans payable	(7,762)	(598,605)
Proceeds from issuance of common shares	4,581,722	98,600
Purchase of treasury shares	—	(1,955,144)
Proceeds from sales of treasury shares	—	876,300
Cash dividends paid	(641,261)	(890,539)
Other, net	(11,000)	(456)
Net cash provided by (used in) financing activities	3,921,698	(2,469,846)
Effect of exchange rate change on cash and cash equivalents	24,337	(44,247)
Net increase (decrease) in cash and cash equivalents	6,825,885	1,004,450
Cash and cash equivalents at beginning of period	4,782,677	11,608,562
Cash and cash equivalents at end of period	11,608,562	12,613,012

## (5) Notes on consolidated financial statements

(Notes relating to going concern assumptions)

Not applicable.

(Notes relating to significant items for preparation of consolidated financial statements)

### 1. Items concerning the scope of consolidation

Our consolidated subsidiaries are the following 17 companies, all of which are consolidated.

TeraMobile, Inc.  
FIL Corporation  
music.jp, Inc.  
comic.jp, Inc.  
mobile Ltd.  
Automagi Inc.  
Mediano Ltd.  
MShift, Inc.  
Mytrax Inc.  
EverGene Ltd.  
Sonicnaut Co., Ltd.  
ZERO-A Co., Ltd.  
CLIMB Factory Co., Ltd.  
PHARUMO, Inc.  
KARADAmédica, Inc.  
MTI Healthcare Lab Ltd.  
MYTRAX VIETNAM Co.,Ltd

J Bridge Ventures, Inc., which was included in the Company's consolidated subsidiaries in the previous consolidated fiscal year, has been liquidated and has been excluded from the scope of consolidation.

MYTRAX VIETNAM Co., Ltd., a newly established company, has been a consolidated subsidiary from the consolidated fiscal year under review.

In the consolidated fiscal year under review, Jibe Mobile K.K. and LHR Service, Inc., consolidated subsidiaries, have been renamed as Automagi Inc. and MTI Healthcare Labo Co., Ltd., respectively.

### 2. Items concerning the application of equity method

#### (1) Number of equity method affiliates: 4

SHANGHAI HYRON MTI CO., LTD.

Video Market Corporation

StaGen Co., Ltd.

Smart Med Co., Ltd.

StaGen Co., Ltd. and Smart Med Co., Ltd. are included in the scope of application of the equity method following the acquisition of shares in these companies in the consolidated fiscal year under review.

#### (2) If an equity method affiliate has its closing date on other than the consolidated closing date, the financial statements as of the end of the month preceding the consolidated closing date are used for the preparation of the consolidated financial statements.

#### (3) Names of non-equity method affiliates

livepass, Inc.

Reason for not applying the equity method

The company above is not accounted for under the equity method because its effect on such items as net income and retained earnings of this term is insignificant and also immaterial as a whole.

### 3. Items concerning the accounting periods of the consolidated subsidiaries and the like

One of the consolidated subsidiaries, MShift, Inc., closes its books as of December 31 each year. With respect to MShift, Inc., financial statements prepared pursuant to the provisional closing of books conducted as of the end of the month preceding the consolidated closing date are used for the preparation of the consolidated financial statements. The closing dates of other consolidated subsidiaries are the same as the consolidated closing date.

#### 4. Items concerning accounting standards

##### (1) Valuation standards and methods for significant assets

###### Securities

###### Other securities

###### Other securities with market value

The market value method based on market prices and the like at the closing date is applied.

(Unrealized holding gains and losses are accounted for as a component of net assets, and the costs of sold securities are mainly computed based on the moving average method.)

###### Other securities without market value

A historical cost method based on the moving average method is applied.

##### (2) Depreciation methods for significant depreciable assets

###### a) Property, plant and equipment

The declining-balance method is applied. Their main useful lives are as follows:

Buildings and accompanying facilities: 3 - 18 years

Tools, furniture and fixtures: 3 - 20 years

###### b) Intangible assets

###### Software

###### Software used in the company

The straight-line method based on the useful lives within the company (2 - 5 years) is applied.

##### (3) Basis for significant allowances

###### a) Allowance for doubtful accounts

To prepare for losses on the collection of receivables, the allowance for doubtful accounts provides an estimated amount of uncollectibles. The amount of the allowance for general receivables is based on the historical loan loss ratio. As for certain receivables such as doubtful accounts receivable etc., the recoverability of each receivable is examined individually, and the estimated unrecoverable amounts are recognized as the allowance.

###### b) Allowance for coin usage

With respect to the cost of sales arising from the use of coins etc. provided to the subscribers to “music.jp” etc. through services provided by the Group including Chakuuta Full® or Chakuuta®, the Company provides an accrued amount of payment in a future period as of the end of the current consolidated fiscal year.

###### c) Provision for directors' bonuses

To prepare for outlays for officers' bonuses, an amount applicable for the current consolidated fiscal year is provided based on the estimated amount of payment.

##### (4) Reserves for retirement benefits

###### a) Period reversion method

To prepare for the retirement benefits of employees, an actual amount at the end of the current consolidated fiscal year is provided based on the estimated amount of retirement benefit obligations as of the end of the current consolidated fiscal year.

###### b) Expense processing method on actuarial difference

Actuarial gains and losses are amortized from the following consolidated fiscal year of occurrence, using the straight-line method over the average remaining service period of employees at the time of occurrence in each consolidated fiscal year.

##### (5) Standards for conversion of significant foreign currency-denominated assets and liabilities into Japanese yen

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the fiscal year-end spot exchange rates, with the translation difference included in the current statements of income. The assets, liabilities, earnings, and expenses of overseas subsidiaries, as well as those of overseas equity method affiliates, have been translated into Japanese yen at the prevailing spot exchange rates at the end of the month preceding the consolidated settlement date, and the translation difference has been included in foreign currency translation adjustment under net assets.

##### (6) Amortization method and period of goodwill

Positive goodwill and negative goodwill from the period on or before September 30, 2010 are amortized in accordance with the equal installment method over a period of time, which is estimated individually according to the effect of goodwill.

##### (7) Scope of cash and cash equivalents reported in consolidated statements of cash flows

Cash on hand, readily available deposits and short-term investments, which are highly liquid, only exposed to small risks for value changes and have maturities of terms not exceeding three



months at the time of purchase, are considered to be cash and cash equivalents.

(8) Other important items

Accounting for consumption taxes

Transactions are recorded at amounts exclusive of taxes such as consumption taxes.

(Change in accounting policies and the like)

(Application of the Accounting Standard for Business Combinations, etc.)

From the fiscal year under review, the Company applied the “Accounting Standard for Business Combinations” (ASBJ statement No. 21, September 13, 2013; hereinafter the “Accounting Standard for Business Combinations”), the “Accounting Standard for Consolidated Financial Statements” (ASBJ statement No. 22, September 13, 2013; hereinafter the “Accounting Standard for Consolidated Financial Statements”) and the “Accounting Standard for Business Divestitures” (ASBJ statement No. 7, September 13, 2013; hereinafter the “Accounting Standard for Business Divestitures”). The purpose of applying these standards was to change the method for recording the difference from changes in the Company’s equity in its subsidiaries that remain controlled by the Company as capital surplus and the expenses related to acquisition as an expense in the consolidated fiscal year in which the expenses are incurred. For business combinations implemented after the beginning of the fiscal year under review, the method will be changed to one that reflects the revision of the distributed amounts of acquisition costs by determining provisional accounting treatment in the consolidated financial statements for the consolidated accounting period to which the date of the relevant business combination belongs. In addition, the Company has changed the presentation of net income and other items and the presentation of minority interests to non-controlling interests. To reflect these changes, the Company rearranged the consolidated financial statements for the previous fiscal year.

The Accounting Standard for Business Combinations and other standards are applied in accordance with the transitional treatment prescribed in Article 58-2 (4) of the Accounting Standard for Business Combinations, Article 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Article 57-4 (4) of the Accounting Standard for Business Divestitures. These standards have been applied since the beginning of the fiscal year under review. Their application will continue going forward.

As a result, capital surplus at the end of the fiscal year under review declined ¥73,381 thousand.

In the consolidated statement of cash flows, cash flows related to the acquisition or sale of shares in subsidiaries that do not result in a change in the scope of consolidation are posted in cash flows from financing activities, and cash flows related to expenses related to the acquisition of shares in subsidiaries that result in a change in the scope of consolidation or cash flows related to expenses incurred in association with the acquisition or sale of shares in subsidiaries that do not result in a change in the scope of consolidation are posted in cash flows from operating activities.

Effects on per share information are described in the per share information section.

(Depreciation method of property, plant and equipment)

Following the revision to the Corporation Tax Act, the Company adopted the “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” (ASBJ PITF No. 32, June 17, 2016), effective from the fiscal year under review. In adopting this solution, it changed the depreciation method used for facilities attached to buildings acquired on or after April 1, 2016, switching from the declining balance method to the straight line method.

As in the fiscal year under review, this change had only a minor impact on the Company’s financial statements.

(Accounting standards yet to be applied, etc.)

- Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016)

(1) Overview

The accounting treatments for recoverability of deferred tax assets fundamentally adhere to the framework of JICPA Auditing Guidance No. 66, Auditing Treatment for Judgment of Recoverability of Deferred Assets. The framework stipulates that companies shall be classified into five categories and the amount of deferred tax assets to be posted shall be estimated in accordance with the classification. The framework has been revised as needed in relation to the following items:

- (i) Treatment of companies that do not meet the requirements for any of the five categories
- (ii) The requirements for Category 2 and for Category 3
- (iii) Treatment of unscheduled deductible temporary difference at companies falling under Category 2

- (iv) Treatment of the period when the reasonable estimate of taxable income before addition and subtraction of deductible temporary difference at companies falling under Category 3 is possible
- (v) Treatment of cases where companies meeting the requirements for Category 4 fall under Category 2 or Category 3

(2) Planned date of application

The Company plans to apply the implementation guidance from the beginning of the fiscal year ending September 30, 2017.

(3) Impact of applying the implementation guidance

The impact was being assessed when these consolidated financial statements were prepared.

(Segment information)

**【Segment information】**

Consolidated financial results for the year ended September 30, 2016.

Segment information is omitted since the Group consists of a single segment concerning content distribution for mobile phones (operation of websites) and related services.

(Per share information)

	Previous fiscal year (from October 1, 2014 to September 30, 2015)	Current fiscal year (from October 1, 2015 to September 30, 2016)
Net assets per share	Yen 281.48	Yen 311.13
Net income per share	Yen 48.52	Yen 59.54
Diluted net income per share	Yen 47.67	Yen 58.92

Net income per share is calculated on the following basis.

	Previous fiscal year (from October 1, 2014 to September 30, 2015)	Current fiscal year (from October 1, 2015 to September 30, 2016)
Net income per share		
Net income	Thousand of yen 2,607,431	Thousand of yen 3,317,734
Amount not attributed to common stockholders	—	—
Income applicable to common stock	Thousand of yen 2,607,431	Thousand of yen 3,317,734
Average number of shares outstanding to common stock	53,734,513	55,722,667
Diluted net income per share		
Net income adjustment	—	—
Increase in common stock	965,121	584,620
(Include subscription rights to shares)	965,121	584,620
Summary of potential stock not included in the calculation of amount of diluted net income per share since there was no dilutive effect.	Subscription rights to share Dates of resolution by the board of directors May 1, 2015 (Number of the subscription rights to share 1,531 rights)	Subscription rights to share Dates of resolution by the board of directors May 1, 2015 (Number of the subscription rights to share 1,495 rights) January 29, 2016 (Number of the subscription rights to share 3,248 rights) March 8, 2016 (Number of the subscription rights to share 238 rights)

(Note) 2 We conducted a 2-for-1 share split which became effective as of April 1, 2014. And also we conducted a 2-for-1 effective as of April 1, 2015. Net assets per share and net income per share are calculated on the assumption that these share splits were carried out at the beginning of the previous fiscal year.

3 As described in Change in accounting policies, the Company applies the Accounting Standard for Business Combinations, etc. The application added 1.32 yen to net assets per share in the fiscal year under review. The application does not have any impact on net income per share or diluted net income per share.

(Significant subsequent events)

(Acquisition of convertible bonds with stock acquisition rights)

At a meeting of the Board of Directors held on October 21, 2016, the Company resolved to acquire the first series of unsecured convertible bonds with stock acquisition rights (1,000,000,000 yen) of Shobunsha Publications, Inc. from Whiz Asia Evolution Fund investment limited partnership and acquired the convertible bonds. Details are as follows:

1. Issue

First series of unsecured convertible bonds with stock acquisition rights of Shobunsha Publications, Inc.

2. Transferor

Whiz Asia Evolution Fund investment limited partnership

3. Date of acquisition

October 24, 2016

4. Amount acquired

1,300,000,000 yen

5. Purpose of acquisition

The purpose of the acquisition is to promote collaboration between the Company and Shobunsha Publications and to increase the corporate value of Shobunsha Publications.

6. Other

Whiz Asia Evolution Fund investment limited partnership requested Shobunsha Publications to approve the transfer, and Shobunsha Publications approved it at a meeting of the Board of Directors held on October 21, 2016.

(Purchase of treasury stock)

The Company adopted a resolution made at the Board of Directors' meeting held on October 31, 2016 to purchase treasury stock in accordance with the provisions of Article 156 of the Companies Act applied mutatis mutandis pursuant to Paragraph 3, Article 165 of the same Act.

1. Reason

To increase capital efficiency and allow the implementation of flexible capital policies corresponding to the management environment.

2. Type of shares purchased

Common shares of the Company

3. Number of shares purchased

1,600,000 (maximum)

(2.9% of the total number of shares outstanding (excluding treasury stock))

4. Total value of shares purchased

1,000,000,000 (one billion) yen (maximum)

5. Period of purchasing treasury stock

From November 2 to December 22, 2016

6. Method of purchase

Purchased on the Tokyo Stock Exchange market

(Omission of disclosure)

Notes are not presented related to consolidated balance sheets, consolidated statements of operations, consolidated statement of changes in shareholders' equity and the like, consolidated statements of cash flows, lease transactions, transactions between related parties, tax effect accounting, financial merchandise, securities, derivatives trading, retirement benefit, stock options and the like, business combination and the like, asset retirement obligation, real estate for rent and the like since the necessity to disclose those with these financial results is not considered significant.

## 6. Nonconsolidated financial statement

### (1) Balance sheet

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2015)	Current fiscal year (As of September 30, 2016)
<b>Assets</b>		
Current assets		
Cash and deposits	10,160,400	10,942,245
Accounts receivable-trade	6,615,782	5,873,200
Merchandise	22,353	16,235
Supplies	12,272	4,949
Advance payments-trade	28,950	352,419
Prepaid expenses	307,052	367,491
Accounts receivable-other	827,652	76,874
Deferred tax assets	345,932	309,844
Other	49,968	71,537
Allowance for doubtful accounts	(64,942)	(56,948)
<b>Total current assets</b>	<b>18,305,423</b>	<b>17,957,850</b>
Non-current assets		
Property, plant and equipment		
Buildings and accompanying facilities	310,666	310,666
Accumulated depreciation	(229,941)	(243,439)
Buildings and accompanying facilities, net	80,725	67,227
Tools, furniture and fixtures	179,488	231,422
Accumulated depreciation	(152,530)	(170,027)
Tools, furniture and fixtures, net	26,958	61,394
Leased assets	—	25,350
Accumulated depreciation	—	(422)
Leased assets, net	—	24,927
<b>Total property, plant and equipment</b>	<b>107,683</b>	<b>153,549</b>
Intangible assets		
Patent right	611	5,702
Right of trademark	17,305	16,497
Software	2,064,099	2,139,454
Other	1,849	1,849
<b>Total intangible assets</b>	<b>2,083,865</b>	<b>2,163,502</b>
Investments and other assets		
Investment securities	472,908	571,506
Shares of subsidiaries and associates	957,344	1,616,161
Long-term loans receivable	—	500,000
Long-term loans receivable from employees	351	452
Long-term prepaid expenses	9,660	6,203
Lease and guarantee deposits	477,648	469,928
Deferred tax assets	760,619	786,318
Other	98,177	66,462
Allowance for doubtful accounts	(17,507)	(17,519)
<b>Total investments and other assets</b>	<b>2,759,202</b>	<b>3,999,514</b>
<b>Total non-current assets</b>	<b>4,950,752</b>	<b>6,316,567</b>
<b>Total assets</b>	<b>23,256,175</b>	<b>24,274,418</b>

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2015)	Current fiscal year (As of September 30, 2016)
<b>Liabilities</b>		
Current liabilities		
Accounts payable-trade	938,172	921,945
Current portion of long-term loans payable	500,000	—
Lease obligations	—	5,475
Accounts payable-other	2,548,848	2,318,919
Accrued expenses	416,332	439,168
Income taxes payable	1,311,022	1,317,439
Accrued consumption taxes	337,159	266,093
Advances received	347,685	213,028
Deposits received	79,472	62,456
Allowance for coin usage	234,836	188,361
Provision for directors' bonuses	28,443	44,450
Other	8,914	7,247
<b>Total current liabilities</b>	<b>6,750,888</b>	<b>5,784,586</b>
Non-current liabilities		
Lease obligations	—	21,446
Provision for retirement benefits	739,595	895,206
Other	141	141
<b>Total non-current liabilities</b>	<b>739,737</b>	<b>916,794</b>
<b>Total liabilities</b>	<b>7,490,626</b>	<b>6,701,380</b>
<b>Net assets</b>		
Shareholders' equity		
Capital stock	4,947,984	5,012,181
Capital surplus		
Legal capital surplus	4,753,053	4,817,250
Other capital surplus	5,242	379,794
<b>Total capital surplus</b>	<b>4,758,295</b>	<b>5,197,045</b>
Retained earnings		
Legal retained earnings	7,462	7,462
Other retained earnings		
Retained earnings brought forward	6,536,434	9,304,451
<b>Total retained earnings</b>	<b>6,543,897</b>	<b>9,311,913</b>
Treasury shares	(695,491)	(2,148,888)
<b>Total shareholders' equity</b>	<b>15,554,686</b>	<b>17,372,252</b>
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	83,762	68,682
<b>Total valuation and translation adjustments</b>	<b>83,762</b>	<b>68,682</b>
Subscription rights to shares	127,100	132,103
<b>Total net assets</b>	<b>15,765,549</b>	<b>17,573,037</b>
<b>Total liabilities and net assets</b>	<b>23,256,175</b>	<b>24,274,418</b>

## (2) Statement of income

(Unit: thousands of yen)

	Previous fiscal year (from October 1, 2014 to September 30, 2015)	Current fiscal year (from October 1, 2015 to September 30, 2016)
Net sales	31,297,953	30,915,227
Cost of sales	4,243,618	4,195,682
Gross profits	27,054,334	26,719,544
Selling, general and administrative expenses	22,928,352	20,842,724
Operating income	4,125,982	5,876,819
Non-operating income		
Interest and dividend income	6,657	8,723
Other	24,951	7,841
Total non-operating income	31,609	16,564
Non-operating expenses		
Interest expenses	3,889	1,208
Other	42,033	18,839
Total non-operating expenses	45,922	20,047
Ordinary income	4,111,669	5,873,337
Extraordinary income		
Gain on extinguishment of tie-in shares	3,130	—
Gain on sales of non-current assets	—	4,592
Gain on sales of investment securities	734,287	—
Gain on liquidation of subsidiaries	3,166	—
Gain on reversal of subscription rights to shares	17,705	20,230
Total extraordinary income	758,290	24,823
Extraordinary losses		
Loss on sales of non-current assets	5,183	—
Impairment loss	120,377	—
Loss on retirement of non-current assets	58,025	32,170
Loss on valuation of investment securities	39,999	100,000
Loss on valuation of shares of subsidiaries and associates	441,526	194,682
Total extraordinary losses	665,113	326,853
Income before income taxes	4,204,846	5,571,307
Income taxes-current	1,621,593	1,892,953
Income taxes-deferred	83,695	19,798
Total income taxes	1,705,289	1,912,751
Net income	2,499,556	3,658,555

### (3) Statement of changes in shareholders' equity

Previous fiscal year (from October 1, 2014 to September 30, 2015)

(Unit: Thousands of yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Legal retained earnings	Retained earnings		Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surpluses		Other retained earnings	Total retained earnings		
Balance at beginning of current period	2,596,342	2,401,412	5,242	2,406,654	7,462	4,638,416	4,645,879	(695,491)	8,953,385
Cumulative effects of changes in accounting policies						39,723	39,723		39,723
Restated balance	2,596,342	2,401,412	5,242	2,406,654	7,462	4,678,139	4,685,602	(695,491)	8,993,108
Changes of items during period									
Issuance of new shares-exercise of subscription rights to shares	2,351,641	2,351,641		2,351,641					4,703,282
Dividends from surplus						(641,261)	(641,261)		(641,261)
Net income						2,499,556	2,499,556		2,499,556
Purchase of treasury shares									—
Disposal of treasury shares									—
Net changes of items other than shareholders' equity									
Total changes of items during period	2,351,641	2,351,641	—	2,351,641	—	1,858,294	1,858,294	—	6,561,577
Balance at of current period	4,947,984	4,753,053	5,242	4,758,295	7,462	6,536,434	6,543,897	(695,491)	15,554,686

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total Valuation and translation adjustments		
Balance at beginning of current period	74,198	74,198	206,905	9,234,490
Cumulative effects of changes in accounting policies				39,723
Restated balance	74,198	74,198	206,905	9,274,213
Changes of items during period				
Issuance of new shares-exercise of subscription rights to shares				4,703,282
Dividends from surplus				(641,261)
Net income				2,499,556
Purchase of treasury shares				—
Disposal of treasury shares				—
Net changes of items other than shareholders' equity	9,563	9,563	(79,805)	(70,241)
Total changes of items during period	9,563	9,563	(79,805)	6,491,336
Balance at of current period	83,762	83,762	127,100	15,765,549



Current fiscal year (from October 1, 2015 to September 30, 2016)

(Unit: thousands of yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Retained earnings			Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surpluses	Legal retained earnings	Other retained earnings	Total retained earnings		
						Retained earnings brought forward			
Balance at beginning of current period	4,947,984	4,753,053	5,242	4,758,295	7,462	6,536,434	6,543,897	(695,491)	15,554,686
Cumulative effects of changes in accounting policies									—
Restated balance	4,947,984	4,753,053	5,242	4,758,295	7,462	6,536,434	6,543,897	(695,491)	15,554,686
Changes of items during period									
Issuance of new shares-exercise of subscription rights to shares	64,197	64,197		64,197					128,394
Dividends from surplus						(890,539)	(890,539)		(890,539)
Net income						3,658,555	3,658,555		3,658,555
Purchase of treasury shares								(1,955,144)	(1,955,144)
Disposal of treasury shares			374,552	374,552				501,747	876,300
Net changes of items other than shareholders' equity									
Total changes of items during period	64,197	64,197	374,552	438,749	—	2,768,016	2,768,016	(1,453,396)	1,817,566
Balance at of current period	5,012,181	4,817,250	379,794	5,197,045	7,462	9,304,451	9,311,913	(2,148,888)	17,372,252

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total Valuation and translation adjustments		
Balance at beginning of current period	83,762	83,762	127,100	15,765,549
Cumulative effects of changes in accounting policies				—
Restated balance	83,762	83,762	127,100	15,765,549
Changes of items during period				
Issuance of new shares-exercise of subscription rights to shares				128,394
Dividends from surplus				(890,539)
Net income				3,658,555
Purchase of treasury shares				(1,955,144)
Disposal of treasury shares				876,300
Net changes of items other than shareholders' equity	(15,080)	(15,080)	5,002	(10,078)
Total changes of items during period	(15,080)	(15,080)	5,002	1,807,487
Balance at of current period	68,682	68,682	132,103	17,573,037

**(4) Notes on financial statements**

(Notes on concerning going concern assumption)

Not applicable.

**7. Other**

**(1) Changes in officers**

Not applicable.