Consolidated Financial Results for the Year Ended September 30, 2012 (Japanese standards)

October 31, 2012

Company Name:	MTI Ltd.
Stock code:	9438
Shares listed:	Osaka Securities Exchange (JASDAQ)
URL:	http://www.mti.co.jp
Representative:	Toshihiro Maeta, President and Chief Executive Officer
For further information please contact:	Hiroshi Matsumoto, Director, Corporate Support Division TEL: +81-3-5333-6323
Scheduled date of Ordinary General Meeting of Shareholders:	December 22, 2012
Scheduled date of start of dividend payment:	December 25, 2012
Scheduled date of filing of Securities Report:	December 25, 2012

(Figures less than one millions of yen are omitted)

1. Consolidated Financial Results for the Year Ended September 30, 2012 (From October 1, 2011 to September 30, 2012)

(1) Consolidated 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, 2012	29,382	-9.2	1,704	-54.0	1,697	-54.0	109	-93.9
For the year ended September 30, 2011	32,342	4.9	3,702	18.2	3,692	17.9	1,797	-1.5

(Note) Comprehensive Income Year ended September 30, 2012: 92 millions of yen (-94.8%) Year ended September 30, 2011: 1,776 millions of yen (-1.4%)

	Net income per share	Fully diluted net income per share	Return on Equity	Return on Assets	Operating income ratio
	Yen	Yen	%	%	%
For the year ended September 30, 2012	842.99	—	1.2	11.4	5.8
For the year ended September 30, 2011	13,447.41	—	20.4	23.8	11.4

(Reference) Equity in earnings of affiliates Year ended September 30, 2012: -16 millions of yen Year ended September 30, 2011: -12 millions of yen

(2) Consolidated 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, 2012	13,971	8,922	61.9	66,868.98
For the year ended September 30, 2011	15,881	9,670	59.7	70,973.21

(Reference) Shareholders' equity As of September 30, 2012: 8,645 millions of yen, As of September 30, 2011: 9,488 millions of yen

(3) Consolidated Cash Flows

	Net cash provided by operating activities	Net cash provided by investing activities	Net cash provided by financing activities	Cash and cash equivalents at end of the year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
For the year ended September 30, 2012	2,682	-2,062	-1,167	2,563
For the year ended September 30, 2011	2,986	-2,417	-619	3,108

2. Dividends

	Cash dividends per share					Total annual dividend amount	Payout ratio (consolidated)	Dividends on equity ratio (consolidated)
	End of Q1	End of Q2	End of Q3	End of the year	Annual			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
For the year ended September 30, 2011	—	0.00	—	4,000.00	4,000.00	534	29.7	6.1
For the year ended September 30, 2012	—	0.00	—	4,000.00	4,000.00	517	474.5	5.7
For the year ended September 30, 2013 (Forecast)	—	0.00	—	40.00	40.00		69.0	

(Note) Revision from most recent dividend forecast: None

MTI plans to conduct a 100-for-1 share split on March 31, 2013. The per share dividend forecast for the fiscal year ended September 30, 2013 takes into account this planned share split. Refer to "Explanation for Appropriate Use of Forecasts and Other Notes" on the following page for further details.

3. Consolidated Forecast for the Year Ended September 30, 2013 (From October 1, 2012 to September 30, 2013)

(Percentages are shown as year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share (yen)
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
For the six months ended September 30, 2013	14,500	-1.4	100	-91.3	100	-91.2	50	-71.7	3.87
For the year ended September 30, 2013	30,000	2.1	1,710	0.3	1,700	0.1	750	585.3	58.01

(Note) Revision from most recent earnings forecast: None

Net income per share for the fiscal year ended September 30, 2013 takes into consideration the 100-for-1 share split that will go into effect as of April 1, 2013. Net income per share when not taking into consideration this share split comes to 386.74 yen for the six months ended September 30, 2013 and 5,801.05 yen for the full year ended September 30, 2013.

Others

(1) Changes of significant subsidiaries during the fiscal year (including changes of specified subsidiaries resulting: No in change in scope of consolidation)

Newly consolidated — (company name) Excluded — (company name)

(2) Changes in accounting principles, procedures, and disclosures for consolidated financial statements

① Changes pursuant to revision of accounting principles : None

② Other changes : None

③ Changes to accounting estimates : None

④ Corrected restatements : None

(3) Number of issued shares (common stock)

① Number of shares issued at end of year (including treasury stock)	For the fiscal year ended September 30, 2012	133,688 shares	For the fiscal year ended September 30, 2012	133,688 shares
② Number of treasury stock at end of year	For the fiscal year ended September 30, 2012	4,401 shares	For the fiscal year ended September 30, 2012	—shares
③ Weighted average number of shares	For the fiscal year ended September 30, 2012	129,824 shares	For the fiscal year ended September 30, 2011	133,688 shares

(Reference) Summary of Nonconsolidated Financial Results

Nonconsolidated Financial Results for the Year Ended September 30, 2012 (From October 1, 2011 to September 30, 2012)

(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, 2012	28,313	-11.6	1,831	-54.3	1,834	-54.1	-201	—
For the year ended September 30, 2011	32,023	3.6	4,004	33.1	3,997	29.9	2,275	25.7

	Net income per share	Fully diluted net income per share
	Yen	Yen
For the year ended September 30, 2012	-1,552.16	—
For the year ended September 30, 2011	17,022.89	—

(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, 2012	13,133	8,706	64.7	65,704.02
For the year ended September 30, 2011	15,572	9,811	62.0	72,168.19

(Reference) Shareholders' equity As of September 30, 2012: 8,494 millions of yen As of September 30, 2011: 9,648 millions of yen

Indication of audit procedure implementation status

At the time of disclosure of the financial results, audit procedures based upon the Financial Instruments and Exchange Act had not been completed.

Explanation for Appropriate Use of Forecasts and Other Notes

This report contains forward-looking statements on business performance based on the judgments, assumptions, and beliefs of management using the information available at the time. Actual results may differ substantially due to changes in domestic or overseas economic conditions or changes in internal or external business environments or aspects of uncertainty contained in the forecasts, latent risks or various other factors. In addition, risk and uncertainty factors include unpredictable elements that could arise from future events. Please refer to page 3 "Outlook for the year ended September 30, 2013" of the Attachment for the assumptions used and other notes.

Other Notes

The Board of Directors decided on October 31, 2012 to conduct a share split and adopt a unit share system. Accordingly, a 100-for-1 share split will take effect from April 1, 2013 and the trading unit number will be set at 100 shares. Please refer to the dividend forecast and relevant items of the consolidated forecast for the fiscal year ended September 30, 2013.

●Attached Document – Contents

1. Operating Results

(1) Analysis of Operating Results

1) Operating Results (from October 1, 2011 to September 30, 2012)

In the mobile phone market, our core business area, smartphone shipments increased to 24.17 million units during the year ended March 2012, an increase of roughly 2.8 times compared to the previous year. Smartphones accounted for 56.5% of all mobile phone shipments (compared to 22.7% during the previous year), underscoring the rapid market transition from feature phones to smartphones (*1).

MTI Ltd. views this transition as an opportunity to expand our mobile content services targeting smartphone users. Accordingly, we have worked hard to increase the number of paying subscribers for smartphone services and have expanded service functions.

We have conducted aggressive promotions and introduced new services in order to increase the number of paying subscribers. This has resulted in expansion for not only the conventional categories of music content, healthcare information and weather reports, but also e-books, map guide and car navigation, horoscopes, puzzle games and others.

In terms of expanding functions, we have prepared a framework through which music downloads can be purchased using T-points and SAISON Permanent Points. At the same time we prepared services compatible with the iPhone from among our main categories (e-books: since April 2012, music: since September 2012).

As a result, the number of paying subscribers for smartphone service had reached 3.13 million as of September 30, 2012 (an increase of 2.4 million subscribers compared to September 30, 2011).

Meanwhile, the number of paying subscribers for feature phone services continued to decline due to the rapid market shift to smartphones and stood at 5 million as of the September 30, 2012 (a decrease of 3.21 million users compared to September 30, 2011).

The total number of paying service subscribers as of September 30, 2012 was 8.13 million (a decrease of 810,000 subscribers compared to September 30, 2011). Even though a declining trend continued on a quarterly basis, a net gain was recorded in the fourth quarter. Furthermore, the transition to smartphone-based services is proceeding smoothly as subscribers to smartphone services now account for 38.5% of our overall subscriber base.

Net sales declined 9.2% on-year to 29.382 billions of yen due to the above-mentioned reduction in the overall number of paying subscribers.

Gross profit declined 4.3% on-year to 23.716 billions of yen. Even though the cost of sales ratio decreased (to 19.3% from 23.4% during the previous term) due to a decline in the number of music content downloads and an increase in the percentage of overall sales attributed to lifestyle information content with low cost of sales ratios, that was not enough to offset the revenue decrease.

Operating income declined 54.0% to 1.704 billions of yen and ordinary income also fell 54.0% to 1.697 billions of yen. In addition to the decline in gross profit, selling, general and administrative expenses increased on year. Even though there was a decline in commissions paid (to carriers for collecting fees) in line with the decline in the number of paid subscribers, there were on-year increases in main expenses such as personnel, outsourcing and depreciation.

Net income declined 93.9% on-year to 109 millions of yen due to loss on valuation of investment securities, impairment loss of goodwill, and extraordinary loss such as loss on retirement of noncurrent assets.

*1: Source: MM Research Institute, Ltd.

Consolidated Operating Results

(Unit: millions of yen)

	Fiscal year ended September 30, 2012	Fiscal year ended September 30, 2011	Change	
			Amount	Percentage
Net sales	**29,382**	32,342	-2,959	-9.2%
Gross profit	**23,716**	24,770	-1,053	-4.3%
Operating income	**1,704**	3,702	-1,997	-54.0%
Ordinary income	**1,697**	3,692	-1,994	-54.0%
Current net income	**109**	1,797	-1,688	-93.9%

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

2) Outlook for Year Ended September 30, 2013 (from October 1, 2012 to September 30, 2013)

The rapid shift from feature phones to smartphones in the mobile contents market is expected to continue during the new term, so an emphasis will be placed on increasing the number of paying subscribers for smartphone services. In particular, during the fiscal year under review our main categories were made compatible with the iPhone, which accounts for 40% (*2) of the domestic smartphone market. So a true expansion in the number of paying subscribers among iPhone users is expected to begin.

As well as we will expand music services targeting iPhone users, we will also provide music services targeting various devices such as car audio systems, and we will offer various settlement systems in addition to T-points. We will also try to increase the situations in which users enjoy music, such as adding shared playlists and other social networking features. These offering are expected to help increase the number of paying subscribers.

In the health-related information sector we will leverage our *Luna-Luna* site to provide healthcare support in step with the lifestyles of women. These services will include everything from menstrual period and ovulation forecasts to services related to beauty, diet, pregnancy and aging. In this manner, we are developing services that users can utilize for a long time. Furthermore, we plan to use new approaches to connect these services with health-related equipment such as body composition meters and pedometers to introduce services allowing for easy daily health maintenance.

The number of registered IDs for our original *mopita* membership authentication and payment system for smartphones had reached about 5.5 million as of September 30, 2012. We are working to further increase the number of registered IDs through the expansion of T-points, SAISON Permanent Points and other frequently used settlement methods, while also providing platforms for services offered by other companies.

Subsidiary Jibe Mobile, Inc. has enjoyed steady orders for the development of social phonebook systems for carriers and the company turned profitable from the fiscal year under review. Stable orders from carriers are expected in the new term, so there are plans for increased sales and profits.

During the year ended September 30, 2013, earnings from services for feature phones are expected to decline, but the number of paying subscribers for smartphone services should increase, unit user fees for various services will be raised and sales generated by subsidiary Jibe Mobile are also slated to increase. As such, sales are expected to increase 2.1% on-year to 30 billions of yen, roughly unchanged from the just ended fiscal year.

In terms of profit and loss, the cost of sales ratio is expected to remain at about the same level as for the just ended fiscal year. Even though expenses related to expanding the number of paying subscribers for smartphone services will increase, highly adaptive expense management will be applied so selling, general and administrative expenses are also expected to remain at about the same level as during the just ended fiscal year. As such, operating income is expected to increase 0.3% on-year to 1.710 billions of yen and ordinary income is expected to grow 0.1% on-year to 1.700 billions of yen, in both cases little changed from the just ended fiscal year.

Net income is expected to increase 585.3% on-year to 750 millions of yen due to a decrease in extraordinary loss compared to the previous year.

(*2) Source: MM Research Institute, Ltd.

Forecast for Accumulated Results through Q2 of Fiscal year Ended September 30, 2013

(Period from October 1, 2012 to March 31, 2013)

Consolidated Profit and Loss		
Net sales	14,500 millions of yen	(Decrease of 1.4% y-o-y)
Operating income	100 millions of yen	(Decrease of 91.3% y-o-y)
Ordinary income	100 millions of yen	(Decrease of 91.2% y-o-y)
Net income	50 millions of yen	(Decrease of 71.7% y-o-y)

Forecasts for Fiscal year Ended September 30, 2013

(Period from October 1, 2012 to September 30, 2013)

Consolidated Profit and Loss		
Net sales	30,000 millions of yen	(Increase of 2.1% y-o-y)
Operating income	1,710 millions of yen	(Increase of 0.3% y-o-y)
Ordinary income	1,700 millions of yen	(Increase of 0.1% y-o-y)
Net income	750 millions of yen	(Increase of 585.3% y-o-y)

(2) Analysis of Financial Conditions

1) Analysis of Financial Conditions in the Year Ended September 30, 2012

a) Assets, Liabilities and Net Assets

Total assets as of September 30, 2012 were 13.971 billions of yen, down 1.910 billions of yen compared to September 30, 2011.

In Assets section, current assets decreased 1.839 billions of yen mainly due to reductions in cash and deposits and accounts receivable-trade. Noncurrent assets decreased by 70 millions of yen. There were increases in software, but decreases mainly for goodwill and investment securities.

In Liabilities section, current liabilities decreased by 1.059 billions of yen. Other accounts payable-other increased, while income taxes payable and accounts payable-trade decreased. Noncurrent liabilities decreased 101 millions of yen due to decreases in long-term loans payable and convertible bonds.

In Net assets section, even though there was net income of 109 millions of yen, net assets still decreased by 748 millions of yen due to the dividend payment and acquisition of treasury stock.

b) Cash Flows

Cash and cash equivalents stood at 2.563 billions of yen as of September 30, 2012, a decrease of 545 millions of yen as compared to September 30, 2011. Cash flows and factors affecting cash flows during the fiscal year under review are as follows.

Net cash provided by operating activities was 2.682 billions of yen, compared to 2.986 billions of yen for the previous year. While there were fund outflows due to the payment of income taxes and reductions in procurement liabilities, there were also reductions in income before taxes, depreciation costs and receivables.

Net cash provided by investing activities was 2.062 billions of yen, compared to 2.417 billions of yen for the previous year, principally due to purchases of intangible assets (mainly software).

Net cash provided by financing activities was 1.167 billions of yen, compared to 619 millions of yen for the previous year due to dividend payments, repayment of long-term loans payable and the acquisition of treasury stock.

(Reference) Cash Flow Indicators

	Fiscal year ended September 30, 2008	Fiscal year ended September 30, 2009	Fiscal year ended September 30, 2010	Fiscal year ended September 30, 2011	Fiscal year ended September 30, 2012
Equity ratio (%)	49.9	53.7	54.0	59.7	61.9
Equity ratio based on market value (%)	147.6	260.0	94.0	84.1	69.5
Ratio of cash flow to interest-bearing liabilities (%)	65.5	40.2	15.7	12.1	6.0
Interest coverage ratio (times)	63.7	84.8	182.7	219.0	273.6

Equity ratio: equity / total assets

Equity ratio based on market value: market capitalization / total assets

Ratio of cash flow 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 flow 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 flow statement.

2) Financial Outlook for Year Ended September 30, 2013

a) Assets, Liabilities and Net Assets

Assets as of September 30, 2013 are expected to remain at roughly the same level as at the end of the fiscal year under review.

Liabilities are expected to increase due mainly to increases in income taxes payable.

Net assets are expected to decrease as dividend payments and the acquisition of treasury stock cut into the net income.

b) Cash Flows

We expect cash and cash equivalents as of September 30, 2013 will be at roughly the same level as at the end of the fiscal year under review.

Net cash provided by operating activities there will be cash outflows due to the payment of income taxes, but also cash inflows mainly from income before income taxes and from depreciation.

Net cash provided by investing activities, cash outflows are expected mainly due to the acquisition of intangible assets.

Net cash provided by financing activities, cash outflows are expected mainly due to dividend payments and the acquisition of treasury stock.

(3) Basic Policy regarding Profit Distribution to Shareholders and Dividends for the Year ended September 30, 2012 and the Year Ended September 30, 2013

We regard continuously increasing total market value through the creation and expansion of corporate value and distributing profits to shareholders as important priorities.

Regarding profit distribution to shareholders, we take into account our basic capital strategy of achieving a balance between sustainable growth in sales and profits in the medium to long term and the return of profits to shareholders. In the light of this strategy and internal reserves to provide for aggressive business development, we are aiming to achieve a total payout ratio of 35%.*

For the fiscal year under review, from the viewpoint of maintaining a stable dividends, we plan to pay a per share dividend of 4,000 yen. As a result, the total payout ratio for the fiscal year under review will come to 835.7% due to the steep drop in net income for this term due to extraordinary loss and other factors.

The same policy of maintaining stable dividends will apply for the term ended September 30, 2013. However, on April 1, 2013 we will conduct a 100-for-1 share split and therefore plan to pay a full-year dividend of 40 yen per share.

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

Total dividends paid (1)	Total treasury stock acquisition (2)	Net income (3)	Total payout ratio [(1) + (2)] / (3)
517 millions of yen	397 millions of yen	109 millions of yen	835.7%

(4) Business Risks

We are providing the main items viewed as potential risk factors for our business development. Even items that are not necessarily risk factors but are important and useful for making investment assessments, as well as items important in terms of understanding our business activities, are actively disclosed from the perspective of thorough information disclosure for investors.

With a clear awareness of the potential for these risks to arise, our policy is to work to prevent these risks from occurring and make prompt responses in the event they do occur. However, when assessing an investment in our shares, these items as well as items contained in financial statements need to be carefully considered. 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 statement (October 31, 2012).

1) Over-reliance on Certain Individuals

Our President and Chief Executive Office Toshiro Maeta has fulfilled the core role of amassing expertise in business model creation, data analysis technologies and other areas of strength for the company. He has also fulfilled the key role of actually driving our business. We are working to create a management structure that does not rely so heavily on Mr. Maeta and efforts are being made to develop and bolster personnel. However, there is still the possibility that our business results could be seriously impacted if for some reason Mr. Maeta became unable to perform his duties.

2) Unexpected Changes to Business Environment

The following factors involving our main mobile contents business could result in a serious divergence from our current sales and expenditure forecasts. Such cases could leave us with no alternative but to alter management policies and strategies, which could seriously impact 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 with competing companies in terms of content materials, quality and 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 making it harder to maintain cost competitiveness and secure the target number of 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, or obtaining profit becomes difficult due to a bigger-than-expected increase in cost for acquiring contents.

e) Amended or newly established laws regulating our industry result in increased costs associated with changes to service particulars and the management/maintenance of service, or the restriction of business development and cancelation of projects in order to satisfy the relevant laws.

3) Information Networks become Inoperable

We have developed businesses that utilize communication lines and information systems. If information networks were to become inoperable for a prolonged period due to communication line interruptions caused by natural disasters or accidents, or if systems crashed due to an unexpected surge in access or a virus / external unauthorized computer access, we could be forced to suspend business, which would seriously impact our results.

4) Personal Information Leaks

We are extremely thorough in the safeguarding of personal information. We have built a strict information management system, implemented information security, prepared and strengthened various regulations regarding the handling of information and have educated/trained/enlightened our employees and business partners regarding the handling of such information. If, despite these efforts, personal information were to be leaked and problem arose, our results could be seriously impacted.

5) Intellectual Property Right Infringement

We always conduct our business development in a manner that is careful to never infringe upon the intellectual property rights of third parties. However, there is the possibility that we may unintentionally infringe upon such intellectual property rights. In such cases the third party could file a lawsuit demanding the payment of damages and the suspension of operations involving the rights in question. The payment of such damages could seriously impact our results.

2. Business Group

As of September 30, 2012 our business group consisted of 16 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) Business

Contents distribution	MTI, TeraMobile, Jibe Mobile

(2) Main Group Companies

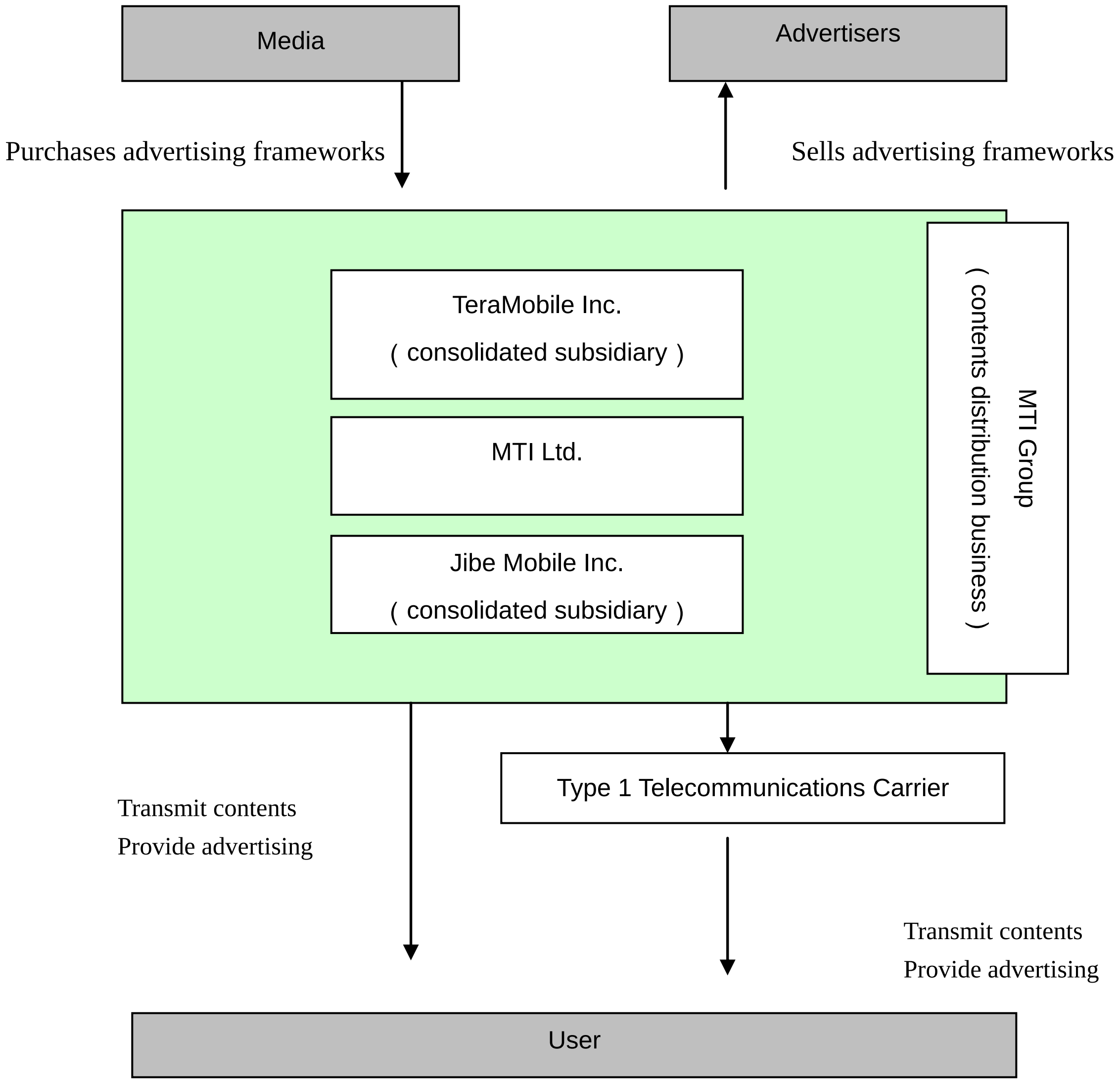
MTI

MTI Ltd.	Engaged in the distribution of content for mobile phones, etc.

Main Affiliate Companies

TeraMobile Inc.	Engaged in advertising agency activities, etc.
Jibe Mobile Inc.	Engaged in software development, etc.

(3) Business Distribution Diagram



3. Management Policy

(1) Basic Management Policy

MTI is dedicated to understanding customer needs and expectations. We offer easy-to-use services making full use of the latest technologies and provide the quality and product line up needed to satisfy customers with the aim of realizing a brighter society made possible by future mobile handsets. Our goal is to become a "Mobile Dream Factory" creating exciting mobile content and services that continue to delight our customers.

(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. Continuous improvement of our marketing, quality control, development and design capacity will be essential for supporting the business expansion needed to realize medium- to long-term quantitative growth. Continuous improvement of these capacities will allows us to flexibly respond to changes in customer needs and the market environment.

(3) Medium- to Long-term Management Strategy

Our strategy is to use a portion of the stable earnings generated by our music content distribution and healthcare information services, our main earnings pillars, 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 also strive to increase the number of subscribers in new fields amid the rapid growth in the market for smartphone services. Additionally, we will aggressively work to create business opportunities by developing new services targeting smartphones and we will work to realize sustained sales and continuous growth of profits.

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

a) Music Contents

music.jp® is the main pillar of our business accounting for large percentages of overall sales and profits. This business fulfils the important role of a steady earnings source supporting new businesses with good future prospects. There are plans to continue focusing on increasing the number of paying subscribers among smartphone users.

In addition to acquiring popular songs, service functions will be enhanced to raise user convenience. In particular, by achieving compatibility with any device and OS, we are developing services that will allow for songs “to be encountered and enjoyed anywhere, anytime”.

We will also expand the situations where users can enjoy music and improve the level of convenience by providing various point and other settlement methods, implementing social networking functions such as playlist sharing. These steps are intended to increase the number of users and reduce membership cancelations by further elevating customer satisfaction.

b) Healthcare Contents

Luna-Luna is the next main pillar of our business after *music.jp*® and likewise accounts for a large percentage of sales and profits. Since *Luna-Luna* also fulfils the important role of a steady earnings source supporting new businesses with good future prospects, we intend to continue focusing on increasing the number of paying subscribers among smartphone users for this business as well.

With *Luna-Luna* functioning as the core site, we offer healthcare support in step with the lifestyles of women, covering from menstrual period and ovulation forecasts to services related to beauty, diet, pregnancy, childcare and aging. In this manner, we provide support services for women covering a whole lifetime.

We also plan to develop general healthcare care support services for both men and women of all ages. The healthcare care market is large and promising with good prospects for future growth. We plan to make aggressive investments in this market in order to expand the number of paying subscribers.

c) Lifestyle Information and Entertainment Contents

Lifestyle information and entertainment contents consist of weather, traffic reports, map guides, e-books, games, horoscopes and others. We are intending to establish this field as a revenue source along with music content distribution and healthcare information. It is also being used to uncover new growth fields.

We intend to develop and provide new services after accurately grasping changes in technical trends and user lifestyles/needs. We are striving to increase the number of paying subscribers by verifying hypothesis about effective promotional methods and by aggressively investing in promising fields with high cost-effectiveness.

(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.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Thousands of yen)

	As of September 30, 2011	As of September 30, 2012
Assets		
Current assets		
Cash and deposits	3,108,759	2,563,283
Accounts receivable-trade	7,633,523	6,188,642
Advances	92,322	51,988
Prepaid expenses	241,414	322,454
Accounts receivable-other	110,191	84,416
Income taxes receivable	―	170,359
Deferred tax assets	614,747	377,178
Other	40,407	140,659
Allowance for doubtful accounts	(370,934)	(268,158)
Total current assets	11,470,431	9,630,823
Noncurrent assets		
Property, plant and equipment		
Buildings and accompanying facilities	313,131	329,045
Accumulated depreciation	(164,298)	(189,890)
Buildings and accompanying facilities, net	148,832	139,154
Tools, furniture and fixtures	288,659	307,571
Accumulated depreciation	(183,553)	(228,629)
Tools, furniture and fixtures, net	105,105	78,941
Total property, plant and equipment	253,938	218,095
Intangible assets		
Software	2,005,421	2,255,082
Goodwill	313,614	171,126
Other	19,743	57,546
Total intangible assets	2,338,779	2,483,755
Investments and other assets		
Investment securities	643,855	376,039
Lease and guarantee deposits	462,769	467,695
Deferred tax assets	656,341	751,034
Other	66,468	54,529
Allowance for doubtful accounts	(10,826)	(10,283)
Total Investments and other assets	1,818,608	1,639,014
Total noncurrent assets	4,411,326	4,340,866
Total assets	15,881,758	13,971,689

(Thousands of yen)

	As of September 30, 2011	As of September 30, 2012
Liabilities		
Current liabilities		
Accounts payable-trade	1,541,416	1,233,354
Current portion of convertible bonds	—	62,880
Current portion of long-term loans payable	200,196	99,118
Accounts payable-other	1,555,498	1,964,994
Accrued expenses	451,137	329,481
Income taxes payable	1,044,026	7,941
Accrued consumption taxes	143,613	53,814
Allowance for coin usage	497,141	420,925
Provision for directors' bonuses	34,806	12,974
Other	158,471	381,159
Total current liabilities	5,626,307	4,566,643
Noncurrent liabilities		
Convertible bonds	61,392	—
Long-term borrowings	99,118	—
Long-term accounts payable	92,327	51,581
Provision for retirement benefits	254,522	363,365
Negative goodwill	77,012	67,894
Other	141	141
Total noncurrent liabilities	584,514	482,983
Total liabilities	6,210,822	5,049,626
Net assets		
Shareholders' equity		
Capital stock	2,562,740	2,562,740
Capital surplus	3,072,920	3,078,260
Retained earnings	3,819,710	3,394,389
Treasury stock	—	(397,409)
Total shareholders' equity	9,455,371	8,637,981
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities	25,923	1,881
Foreign currency translation adjustment	6,971	5,427
Total accumulated other comprehensive income	32,895	7,308
Subscription rights to shares	163,897	211,940
Minority interests	18,771	64,832
Total net assets	9,670,935	8,922,062
Total liabilities and net assets	15,881,758	13,971,689

（2） Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

（Thousands of yen）

	For the year ended September 30, 2011	For the year ended September 30, 2012
Net sales	32,342,204	29,382,297
Cost of sales	7,571,844	5,665,445
Gross profits	24,770,360	23,716,851
Selling, general and administrative expenses	21,067,962	22,012,063
Operating income	3,702,398	1,704,788
Non-operating income		
Interest income	215	156
Dividends income	4,125	4,105
Amortization of negative goodwill	9,387	9,117
Gain on reversal of subscription rights to shares	7,456	9,009
Other	8,327	8,033
Total non-operating income	29,512	30,422
Non-operating expenses		
Interest expenses	13,636	9,806
Equity in loss of affiliates	12,290	16,502
Recovery expenses	7,644	―
Other	5,978	11,208
Total non-operating expenses	39,549	37,518
Ordinary income	3,692,360	1,697,692
Extraordinary income		
Reversal of allowance for coin usage	246,941	―
Total extraordinary income	246,941	―
Extraordinary losses		
Loss on retirement of noncurrent assets	57,660	128,100
Loss on valuation of investment securities	75,413	291,421
Goodwill impairment loss	200,183	278,768
Loss on adjustment for changes of accounting standard for asset retirement obligations	27,821	―
Settlement package	―	41,095
Total extraordinary losses	361,079	739,385
Income before income taxes	3,578,222	958,307
Income taxes-current	1,790,061	686,334
Income taxes-deferred	24,617	154,465
Total income taxes	1,814,678	840,799
Income before minority interests	1,763,543	117,507
Minority interests in net income（loss）	(34,213)	8,065
Net income	1,797,757	109,441

Consolidated Statements of Comprehensive Income

（Thousands of yen）

	For the year ended September 30, 2011	For the year ended September 30, 2012
Income before minority interests	1,763,543	117,507
Other comprehensive income		
Valuation difference on available-for-sale securities	4,359	(24,042)
Foreign currency translation adjustment	10,246	(2,154)
Share of other comprehensive income of associate accounted for using equity method	(1,683)	820
Total other comprehensive income（loss）	12,922	(25,376)
Comprehensive income	1,776,465	92,130
（Break down）		
Comprehensive income attributable to owners of parent	1,810,679	83,854
Comprehensive income (loss) attributable to minority shareholders	(34,213)	8,275

(3) Consolidated Statements of Changes in Net Assets

(Thousands of yen)

	For the year ended September 30, 2011	For the year ended September 30, 2012
Shareholders' equity		
Capital stock		
Balance at the beginning of current period	2,562,740	2,562,740
Balance at the end of current period	2,562,740	2,562,740
Capital surplus		
Balance at the beginning of current period	3,072,920	3,072,920
Changes of items during the period		
Issuance of new shares-exercise of subscription rights to shares	―	97
Disposition of treasury stock	―	5,242
Total changes of items during the period	―	5,339
Balance at the end of current period	3,072,920	3,078,260
Retained earnings		
Balance at the beginning of current period	2,580,485	3,819,710
Changes of items during the period		
Cash dividends	(467,908)	(534,752)
Net income	1,797,757	109,441
Change of scope of consolidation	―	(9)
Cancellation of treasury stock	(90,624)	―
Total changes of items during the period	1,239,224	(425,320)
Balance at the end of current period	3,819,710	3,394,389
Treasury stock		
Balance at the beginning of current period	(90,624)	―
Changes of items during the period		
Acquisition of treasury stock	―	(422,693)
Retirement of treasury stock	90,624	―
Deposition of treasury stock	―	25,283
Total changes of items during the period	90,624	(397,409)
Balance at the end of current period	―	(397,409)
Total shareholders' equity		
Balance at the beginning of current period	8,125,522	9,455,371
Changes of items during the period		
Issuance of new shares-exercise of subscription rights to shares	―	97
Cash dividends	(467,908)	(534,752)
Net income	1,797,757	109,441
Change of scope of consolidation	―	(9)
Acquisition of treasury stock	―	(422,693)
Disposition of treasury stock	―	30,526
Total changes of items during the period	1,329,849	(817,390)
Balance at the end of current period	9,455,371	8,637,981
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities		
Balance at the beginning of current period	21,564	25,923
Changes of items during the period		
Net changes of items other than shareholders' equity	4,359	(24,042)
Total changes of items during the period	4,359	(24,042)
Balance at the end of current period	25,923	1,881

(Thousands of yen)

	For the year ended September 30, 2011	For the year ended September 30, 2012
Foreign currency translation adjustments		
Balance at the beginning of current period	(1,590)	6,971
Changes of items during the period		
Net changes of items other than shareholders' equity	8,562	(1,544)
Total changes of items during the period	8,562	(1,544)
Balance at the end of current period	6,971	5,427
Total other accumulated comprehensive income		
Balance at the beginning of current period	19,973	32,895
Changes of items during the period		
Net changes of items other than shareholders' equity	12,922	(25,586)
Total changes of items during the period	12,922	(25,586)
Balance at the end of current period	32,895	7,308
Subscription rights to shares		
Balance at the beginning of current period	113,865	163,897
Changes of items during the period		
Net changes of items other than shareholders' equity	50,031	48,043
Total changes of items during the period	50,031	48,043
Balance at the end of current period	163,897	211,940
Minority interests		
Balance at the beginning of current period	—	18,771
Changes of items during the period		
Net changes of items other than shareholders' equity	18,771	46,060
Total changes of items during the period	18,771	46,060
Balance at the end of current period	18,771	64,832
Total net assets		
Balance at the beginning of current period	8,259,361	9,670,935
Changes of items during the period		
Issuance of new shares-exercise of subscription rights to shares	—	97
Cash dividends	(467,908)	(534,752)
Net income	1,797,757	109,441
Change of scope of consolidation	—	(9)
Acquisition of treasury stock	—	(422,693)
Disposition of treasury stock	—	30,526
Net changes of items other than shareholder's equity	81,724	68,517
Total changes of items during the period	1,411,574	(748,873)
Balance at the end of current period	9,670,935	8,922,062

(4) Consolidated Statements of Cash Flows

(Thousands of yen)

	For the year ended September 30, 2011	For the year ended September 30, 2012
Net cash provided by operating activities		
Income before income taxes	3,578,222	958,307
Depreciation and amortization	1,167,125	1,434,529
Amortization of goodwill	111,671	82,421
Amortization of negative goodwill	(9,387)	(9,117)
Increase allowance for doubtful accounts (decrease)	35,063	(102,755)
Increase allowance for coin usage (Decrease)	(372,485)	(76,216)
Increase in reserve for retirement benefits (decrease)	95,588	108,843
Interest and dividends income	(4,340)	(4,261)
Interest expenses	13,636	9,806
Equity in loss of affiliates (income)	12,290	16,502
Loss on retirement of noncurrent assets	57,660	128,100
Loss on devaluation of investment securities (income)	75,413	291,421
Impairment loss of goodwill	200,183	278,768
Loss on adjustment for changes of accounting standard for asset retirement obligations	27,821	—
Decrease in accounts receivable-trade (increase)	87,272	1,445,405
Decrease in advance (increase)	97,702	40,333
Decrease in prepaid expenses (increase)	44,400	(91,115)
Decrease in accounts receivable-other (decrease)	58,981	25,975
Decrease in accounts payable-trade (decrease)	(442,341)	(312,395)
Increase in accounts payable-other (decrease)	24,937	392,130
Increase in accured expenses (decreae)	38,907	(5,926)
Increase in accured consumption taxes (decrease)	14,196	(89,799)
Other	83,971	27,414
Subtotal	4,996,492	4,548,372
Interest and dividends income received	4,340	4,261
Interest paid	(13,636)	(9,806)
Income taxes paid	(2,000,806)	(1,860,215)
Net cash provided by operating activities	2,986,389	2,682,611
Net cash provided by investing activities		
Purchase of property, plant and equipment	(60,065)	(30,830)
Purchase of intangible assets	(1,642,686)	(1,772,392)
Purchase of investment securities	(409,477)	(74,920)
Proceeds from sales of investment securities	8,000	—
Purchase of investments in subsidiaries resulting in charge in scope of consolidation	(414,829)	(170,893)
Proceeds from collection of lease and guarantee deposits	140,745	(14,523)
Other	(39,370)	1,469
Net cash provided by investing activities	(2,417,684)	(2,062,089)

（Thousands of yen）

	For the year ended September 30, 2011	For the year ended September 30, 2012
Net cash provided by financing activities		
Repayments of long-term payable	(200,196)	(200,196)
Proceeds from issuance of bonds	64,704	—
Proceeds from issuance of shares	269	—
Proceeds from sales of tresury stock	—	30,526
Payment for acquisition of tresury stock	—	(422,693)
Dividends paid	(467,908)	(534,752)
Other	(16,786)	(40,746)
Net cash provided by financing activities	(619,917)	(1,167,861)
Effect of exchange rate change on cash and cash equivalents	10,246	1,863
Net increase (decrease) in cash and cash equivalents	(40,966)	(545,476)
Cash and cash equivalents at beginning of period	3,099,008	3,108,759
Increase in cash and cash equipments from newly consolidated subsidiaries	50,717	—
Cash and cash equivalents at end of period	3,108,759	2,563,283