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Summary of Consolidated Financial Results for the
Fiscal Year ended September 30, 2017 (Japanese Accounting Standards)

October 31, 2017

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
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 Scheduled date of annual meeting of shareholders: December 23, 2017
 Scheduled date to submit the Securities Report (Yuka Shoken Houkokusho): December 25, 2017
 Scheduled date of dividend payment: December 25, 2017
 Supplementary documents for financial results: Yes
 Quarterly results briefing: Yes (for securities analysts and institutional investors)

(Figures less than one millions of yen are omitted)

1. Consolidated business results for the year ended September 30, 2017
(October 1, 2016 – September 30, 2017)

(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, 2017	30,933	(5.8)	4,053	(24.3)	3,972	(25.2)	1,434	(56.8)
For the year ended September 30, 2016	32,844	(1.8)	5,355	26.1	5,310	28.2	3,317	27.2

(Note) Comprehensive income: Year ended September 30, 2017: 1,437 million yen, (53.1%)
 Year months ended September 30, 2016: 3,094 million yen, 13.4%

	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, 2017	26.27	26.12	8.4	16.2	13.1
For the year ended September 30, 2016	59.54	58.92	19.9	21.3	16.3

(Reference) Equity in earnings (losses) of affiliates: Year ended September 30 2017: (148)millions of yen
 Year ended September 30 2016: (44) 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, 2017	23,897	17,937	71.2	312.28
Year ended September 30, 2016	25,154	17,852	68.8	311.13

(Reference) Shareholders' equity: Year ended September 30 2017: 17,026 millions of yen
 Year ended September 30 2016: 17,306 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, 2017	3,442	(3,874)	(2,068)	10,133
For the year ended September 30, 2016	4,845	(1,327)	(2,469)	12,613

2. Dividends

	Dividend per share					Amount of dividends paid (Total)	Dividend ratio (Consolidated)	Dividends on equity (Consolidated)
	End of first quarter	End of second period	End of third quarter	Year end	Annual			
For the year ended September 30, 2016	–	8.00	–	8.00	16.00	879	26.9	5.4
For the year ended September 30, 2017	–	8.00	–	8.00	16.00	871	60.9	5.1
Year ending 9/18 (forecast)	–	8.00	–	8.00	16.00		48.5	

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

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	15,000	(1.9)	1,000	(51.8)	960	(52.8)	670	51.8	12.29
Full year	30,000	(3.0)	2,800	(30.9)	2,800	(29.5)	1,800	25.5	33.01

* 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: | Not applicable |
| (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): | | |
| 9/17: 60,854,400 shares | 9/16: 60,549,200 shares | |
| (ii) Number of treasury shares at the end of period | | |
| 9/17: 6,333,128 shares | 9/16: 4,925,228 shares | |
| (iii) Average number of shares during the period | | |
| 9/17: 54,595,270 shares | 9/16: 55,722,667 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, 2017	27,698	(10.4)	4,463	(24.1)	4,512	(23.2)	944	(74.2)
For the year ended September 30, 2016	30,915	(1.2)	5,876	42.4	5,873	42.8	3,658	46.4

	Net income per share	Fully diluted net income per share
	Yen	Yen
For the year ended September 30, 2017	17.29	17.19
For the year ended September 30, 2016	65.66	64.97

(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, 2017	21,947	16,661	75.2	302.55
For the year ended September 30, 2016	24,274	17,573	71.8	313.55

(Reference) Shareholders' equity

As of September 30, 2017: 16,495 millions of yen As of September 30, 2016: 17,440 millions of yen

* Status of review

Financial results is out of audit.

* 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, October 31, 2017. 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, 2017

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

During the fiscal year under review, smartphone unit sales remained sluggish, and the Company had difficulty acquiring paying subscribers on smartphones at cellphone shops. Despite an increase in the number of new paying subscribers associated with Video Market Corporation being added to the consolidated accounts, the number of paying subscribers on smartphones came to 5.32 million at the end of September 2017 (down 0.37 million from the end of September 2016). As a result, the total number of paying subscribers has decreased by 0.66 million, to 6.56 million.

While average revenue per user (ARPU) remained on an upward trend along with the added revenue associated with the inclusion of Video Market Corporation in the consolidated accounts, net sales were ¥30,933 million (down 5.8% year on year) and gross profit came to ¥25,288 million (down 8.0% year on year), mainly as a result of the year-on-year reduction in the overall number of paying subscribers.

Selling, general and administrative expenses fell with the decrease in advertising expenses associated with the lower acquisition of paying subscribers on smartphones, which eventually failed to make up for the decrease in gross profit. As a result, operating income declined to ¥4,053 million (down 24.3% year on year) and ordinary income fell to ¥3,972 million (down 25.2% year on year).

Profit attributable to owners of parent declined to ¥1,434 million (down 56.8% year on year), primarily due to the posting of the amortization of goodwill as an extraordinary loss associated with the conversion of Video Market Corporation to a consolidated subsidiary in the second quarter, in addition to the decline in ordinary income.

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

	Fiscal year ended September 30, 2017	Fiscal year ended September 30, 2016	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Net sales	30,933	32,844	(1,910)	(5.8)
Cost of sales	5,645	5,353	+292	+5.5
Gross profit	25,288	27,490	(2,202)	(8.0)
SG&A	21,234	22,135	(900)	(4.1)
Operating income	4,053	5,355	(1,302)	(24.3)
Ordinary income	3,972	5,310	(1,338)	(25.2)
Profit attributable to owners of parent	1,434	3,317	(1,883)	(56.8)

Breakdown of SG&A (Period from October 1, 2016 to September 30, 2017)

	Fiscal year ended September 30, 2017	Fiscal year ended September 30, 2016	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Total	21,234	22,135	(900)	(4.1)
Advertising expenses	5,746	7,607	(1,861)	(24.5)
Personnel expenses	5,922	5,637	+285	+5.1
Commission fee	3,698	3,741	(42)	(1.1)
Subcontract expenses	1,432	1,456	(23)	(1.6)
Depreciation	1,690	1,272	+417	+32.8
Other	2,743	2,420	(323)	+13.4

2) Outlook for the next fiscal year

(Period from October 1, 2017 to September 30, 2018)

In the next fiscal year, the Company will focus its efforts on expanding sales in the healthcare-related service business and seek to boost average revenue per user (ARPU) from smartphones in the content distribution business, in spite of a further reduction predicted in the overall number of paying subscribers.

The healthcare-related service business, which the Company is engaged in with a medium-term perspective, has strong growth potential over the longer term and may move more toward a stock type business than in the past with the provision of long-term support according to customers' life stages. Accordingly, the Company is committed to implementing various measures in order to achieve sales growth.

Earnings forecast for the six months of the fiscal year ending September 30, 2018

(Period from October 1, 2017 to March 31, 2018)

Consolidated profit and loss		
Net sales	15,000 millions of yen	(an decrease of 1.9% y-o-y)
Operating income	1,000 millions of yen	(an decrease of 51.8% y-o-y)
Ordinary income	960 millions of yen	(an decrease of 52.8% y-o-y)
Profit attributable to owners of parent	670 millions of yen	(an increase of 51.8% y-o-y)

Earnings forecast for the fiscal year ending September 30, 2018

(Period from October 1, 2017 to September 30, 2018)

Consolidated profit and loss		
Net sales	30,000 millions of yen	(an decrease of 3.0% y-o-y)
Operating income	2,800 millions of yen	(an decrease of 30.9% y-o-y)
Ordinary income	2,800 millions of yen	(an decrease of 29.5% y-o-y)
Profit attributable to owners of parent	1,800 millions of yen	(an increase of 25.5% 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 fell ¥1,256 million from the end of September 2016, to ¥23,897million.

Current assets decreased ¥2,685 million, mainly due to a fall in cash and deposits. Non-current assets grew ¥1,428 million, owing mostly to increases in investment securities.

Current liabilities shrank ¥1,265 million as a result of factors such as falls in income taxes payable. Non-current liabilities decreased ¥75 million, primarily owing to a decrease in net defined benefit liability.

Net assets increased ¥84 million, attributable to ¥1,434 million posted as profit attributable to owners of parent, thereby offsetting the acquisition of treasury stock and cash dividends paid.

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2017	23,897	17,937	71.2
As of September 30, 2016	25,154	17,852	68.8

b) Cash flows

At the end of the fiscal year under review, cash and cash equivalents were ¥10,133 million, representing a decrease of ¥2,479 million from the end of September 2016. Cash flows by activities and principal factors in the fiscal year under review were as follows.

Net cash provided by operating activities was ¥3,442 million (inflow of ¥4,845 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 ¥3,874 million (outflow of ¥1,327 million for the previous fiscal year). Principal factors included the acquisition of investment securities and intangible assets (mainly software).

Net cash used by financing activities came to ¥2,068 million (outflow of ¥2,469 million for the previous fiscal year). Principal factors included the purchase of treasury shares and the payment of cash dividends.

(Reference) Cash flows indicators

	Fiscal year ended September 30, 2013	Fiscal year ended September 30, 2014	Fiscal year ended September 30, 2015	Fiscal year ended September 30, 2016	Fiscal year ended September 30, 2017
Equity ratio (%)	53.7	55.4	64.8	68.8	71.2
Equity ratio based on market value (%)	73.0	161.0	188.6	137.3	154.0
Ratio of cash flows to interest-bearing liabilities (%)	16.6	13.9	13.0	-	-
Interest coverage ratio (times)	570.6	616.6	1,414.4	2,223.9	5,646.4

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 2018 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 2018 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.

As for the payment of year-end dividends for the fiscal year under review, the Company will pay ¥8 per share as previously projected from the perspective of maintaining stable dividends. Accordingly, annual dividends for the fiscal year ended September 2017 will be ¥16 per share, the same amount as 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 profit attributable to owners of parent

Total dividends paid (1)	Acquisition of treasury stock (2)	Net income (3)	Total payout ratio [(1) + (2)] / (3)
871 millions of yen	999 millions of yen	1,434 millions of yen	130.5%

(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 30, 2017).

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, 2016		Client	Fiscal year ended September 30, 2017	
	Amount (thousand yen)	Ratio (%)		Amount (thousand yen)	Ratio (%)
NTT DOCOMO, INC.	18,766,284	57.1	NTT DOCOMO, INC.	17,939,701	58.0
KDDI CORPORATION	7,798,686	23.7	KDDI CORPORATION	7,074,233	22.9
SoftBank Corp.	1,937,673	5.9	SoftBank Corp.	1,418,821	4.6

(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, and design 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.

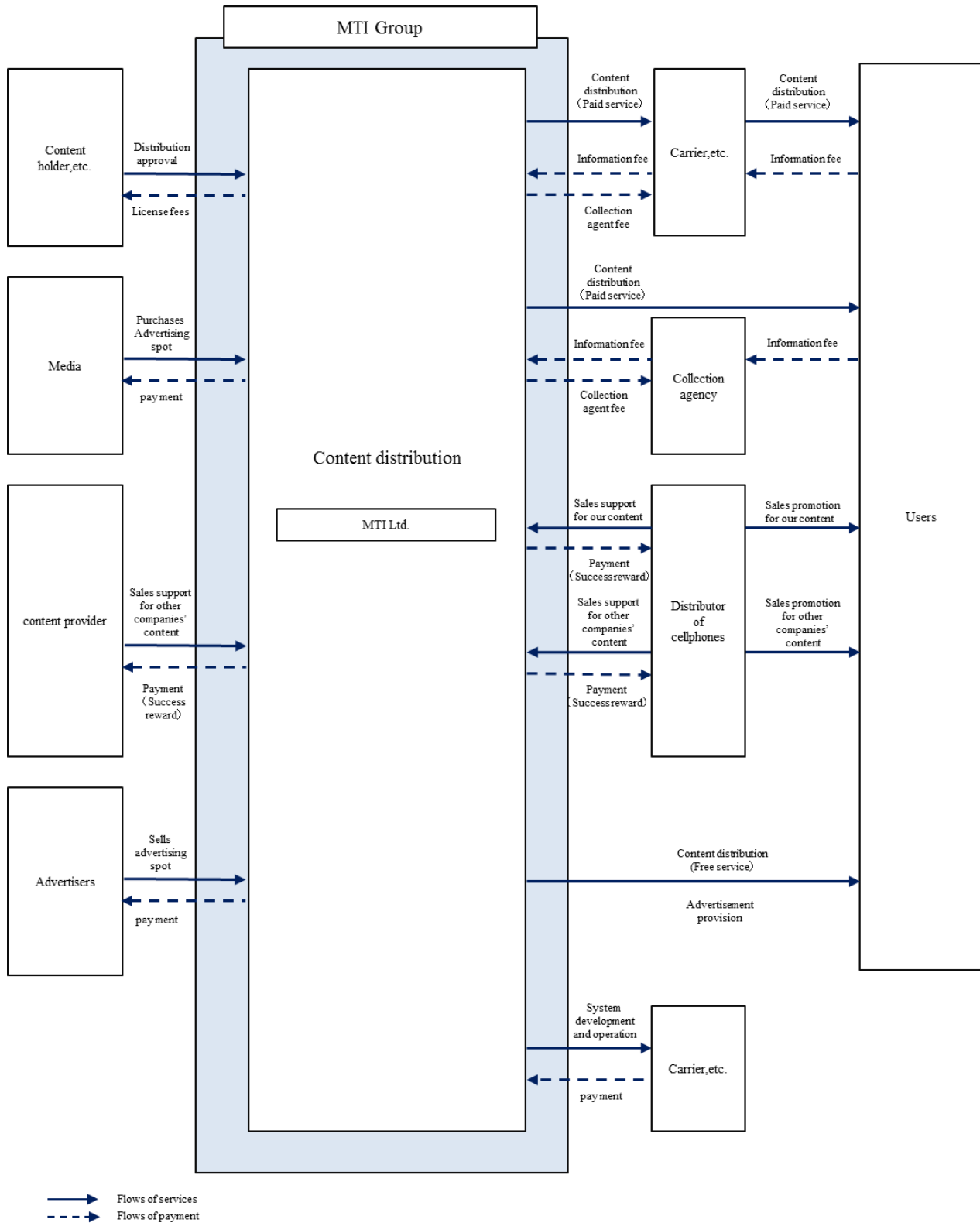
2. Business group

As of September 30, 2017 our business group consisted of 25 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) 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.

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, 2016)	Current fiscal year (As of September 30, 2017)
Assets		
Current assets		
Cash and deposits	12,613,012	10,133,961
Notes and accounts receivable-trade	6,163,789	6,187,768
Advance payments-trade	395,840	235,169
Prepaid expenses	396,234	360,433
Accounts receivable-other	84,672	117,087
Income taxes receivable	4,480	1,851
Deferred tax assets	316,742	237,802
Other	141,967	157,067
Allowance for doubtful accounts	(65,095)	(64,541)
Total current assets	20,051,644	17,366,600
Non-current assets		
Property, plant and equipment		
Facilities attached to buildings	327,800	363,349
Accumulated depreciation	(251,900)	(267,565)
Facilities attached to buildings, net	75,899	95,784
Tools, furniture and fixtures	357,048	499,831
Accumulated depreciation	(253,924)	(318,724)
Tools, furniture and fixtures, net	103,123	181,107
Total property, plant and equipment	179,023	276,891
Intangible assets		
Software	2,462,449	2,078,726
Goodwill	14,898	46,401
Other	26,837	73,803
Total intangible assets	2,504,185	2,198,932
Investments and other assets		
Investment securities	1,054,687	2,437,544
Lease and guarantee deposits	494,963	526,887
Deferred tax assets	853,155	1,018,159
Other	34,048	136,387
Allowance for doubtful accounts	(17,519)	(63,532)
Total investments and other assets	2,419,334	4,055,446
Total non-current assets	5,102,543	6,531,270
Total assets	25,154,188	23,897,871

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2016)	Current fiscal year (As of September 30, 2017)
Liabilities		
Current liabilities		
Accounts payable-trade	1,177,351	1,276,051
Accounts payable-other	2,290,594	1,974,346
Accrued expenses	470,641	430,329
Income taxes payable	1,343,684	668,727
Accrued consumption taxes	289,047	108,033
Allowance for coin usage	188,361	148,536
Provision for directors' bonuses	50,824	25,880
Other	338,318	251,825
Total current liabilities	6,148,824	4,883,730
Non-current liability		
Net defined benefit liability	1,099,402	1,020,346
Negative goodwill	31,423	22,305
Other	21,587	34,111
Total non-current liabilities	1,152,413	1,076,764
Total liabilities	7,301,237	5,960,494
Net assets		
Shareholders' equity		
Capital stock	5,012,181	5,069,848
Capital surplus	5,834,419	5,790,072
Retained earnings	8,727,679	9,311,231
Treasury shares	(2,148,888)	(3,148,848)
Total shareholders' equity	17,425,392	17,022,303
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	65,027	(12,646)
Foreign currency translation adjustment	(42,706)	(22,912)
Remeasurements of defined benefit plans	(141,548)	39,256
Total accumulated other comprehensive income	(119,227)	3,697
Subscription rights to shares	132,236	297,991
Non-controlling interests	414,550	613,383
Total net assets	17,852,951	17,937,376
Total liabilities and net assets	25,154,188	23,897,871

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

(Unit: thousands of yen)

	Previous fiscal year (from October 1, 2015 to September 30, 2016)	Current fiscal year (from October 1, 2016 to September 30, 2017)
Net sales	32,844,230	30,933,963
Cost of sales	5,353,409	5,645,715
Gross profits	27,490,821	25,288,248
Selling, general and administrative expenses	22,135,122	21,234,559
Operating income	5,355,698	4,053,688
Non-operating income		
Interest income	187	510
Dividend income	6,206	43,860
Amortization of negative goodwill	9,117	9,117
Subsidy income	1,377	9,711
Other	8,772	24,163
Total non-operating income	25,661	87,363
Non-operating expenses		
Interest expenses	2,178	609
Share of loss of entities accounted for using equity method	44,873	148,296
Share issuance cost	2,240	—
Foreign exchange losses	11,245	7,507
Other	9,860	12,177
Total non-operating expenses	70,398	168,591
Ordinary income	5,310,961	3,972,461
Extraordinary income		
Gain on step acquisitions	—	693,816
Gain on sales of non-current assets	4,592	—
Gain on sales of investment securities	—	154,911
Gain on reversal of subscription rights to shares	20,230	4,315
Total extraordinary income	24,823	853,043
Extraordinary losses		
Impairment loss	—	230,822
Loss on retirement of noncurrent assets	37,440	87,447
Loss on valuation of investment securities	100,000	236,158
Loss on valuation of shares of subsidiaries and associates	—	11,719
Amortization of goodwill	—	1,399,033
Settlement package	—	108,817
Total extraordinary losses	137,440	2,074,000
Income before income taxes	5,198,344	2,751,504
Income taxes-current	1,931,402	1,576,198
Income taxes-deferred	22,728	(130,001)
Total income taxes	1,954,130	1,446,197
Profit	3,244,214	1,305,307
Profit (loss) attributable to non-controlling interests	(73,520)	(128,900)
Profit attributable to owners of parent	3,317,734	1,434,207

Consolidated statement of comprehensive income

(Unit: thousands of yen)

	Previous fiscal year (from October 1, 2015 to September 30, 2016)	Current fiscal year (from October 1, 2016 to September 30, 2017)
Profit	3,244,214	1,305,307
Other comprehensive income		
Valuation difference on available-for-sale securities	(20,789)	(75,505)
Foreign currency translation adjustment	(47,475)	25,478
Remeasurements of defined benefit plans, net of tax	(78,579)	180,805
Share of other comprehensive income of entities accounted for using equity method	(3,124)	995
Total other comprehensive income	(149,968)	131,773
Comprehensive income	3,094,246	1,437,080
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	3,185,622	1,557,133
Comprehensive income attributable to non-controlling interests	(91,376)	(120,052)

(3) Consolidated statement of changes in equity

Previous 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
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
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 adjustment	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
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
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

Current fiscal year (from October 1, 2016 to September 30, 2017)

(Unit: thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	5,012,181	5,834,419	8,727,679	(2,148,888)	17,425,392
Changes of items during period					
Issuance of new shares exercise of subscription rights to shares	57,667	57,667			115,334
Dividends of surplus			(880,560)		(880,560)
Profit attributable to owners of parent			1,434,207		1,434,207
Purchase of treasury shares				(999,959)	(999,959)
Disposal of treasury shares					—
Increase (decrease) consolidated subsidiaries		(102,014)			(102,014)
Other			29,903		29,903
Net changes of items other than shareholders' equity					
Total changes of items during period	57,667	(44,347)	583,551	(999,959)	(403,088)
Balance at end of current period	5,069,848	5,790,072	9,311,231	(3,148,848)	17,022,303

	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	65,027	(42,706)	(141,548)	(119,227)	132,236	414,550	17,852,951
Changes of items during period							
Issuance of new shares exercise of subscription rights to shares							115,334
Dividends of surplus							(880,560)
Profit attributable to owners of parent							1,434,207
Purchase of treasury shares							(999,959)
Disposal of treasury shares							—
Increase (decrease) consolidated subsidiaries							(102,014)
Other							29,903
Net changes of items other than shareholders' equity	(77,674)	19,794	180,805	122,925	165,754	198,833	487,513
Total changes of items during period	(77,674)	19,794	180,805	122,925	165,754	198,833	84,424
Balance at end of current period	(12,646)	(22,912)	39,256	3,697	297,991	613,383	17,937,376

(4) Consolidated statement of cash flows

(Unit: thousands of yen)

	Previous fiscal year (from October 1, 2015 to September 30, 2016)	Current fiscal year (from October 1, 2016 to September 30, 2017)
Cash flows from operating activities		
Income before income taxes	5,198,344	2,751,504
Depreciation	1,369,002	1,780,455
Impairment loss	—	230,822
Amortization of goodwill	1,690	1,415,921
Amortization of negative goodwill	(9,117)	(9,117)
Increase (decrease) in allowance for doubtful accounts	(5,169)	36,923
Increase (decrease) in allowance for coin usage	(46,475)	(39,824)
Increase (decrease) in net defined benefit liability	139,781	155,309
Interest and dividend income	(6,393)	(44,371)
Interest expenses	2,178	609
Loss (gain) on step acquisitions	—	(693,816)
Share of (profit) loss of entities accounted for using equity method	44,873	148,296
Settlement package	—	108,817
Loss on retirement of noncurrent assets	37,440	87,447
Loss (gain) on sales of non-current assets	(4,592)	—
Loss (gain) on valuation of investment securities	100,000	236,158
Loss (gain) on sales of investment securities	—	(154,911)
Loss on valuation of shares of subsidiaries and associates	—	11,719
Gain on reversal of subscription rights to shares	(20,230)	(4,315)
Decrease (increase) in notes and accounts receivable-trade	709,926	288,819
Decrease (increase) in advance payments	(294,418)	335,161
Decrease (increase) in prepaid expenses	(48,704)	69,949
Decrease (increase) in accounts receivable-other	22,230	(32,415)
Increase (decrease) in notes and accounts payable-trade	(2,133)	(56,742)
Increase (decrease) in accounts payable-other	(269,618)	(477,086)
Increase (decrease) in accrued expenses	23,125	(91,224)
Increase (decrease) in accrued consumption taxes	(79,905)	(198,300)
Other, net	(26,966)	(140,054)
Subtotal	6,834,868	5,715,736
Interest and dividend income received	6,393	44,371
Interest expenses paid	(2,178)	(609)
Income taxes (paid) refund	(1,993,336)	(2,256,232)
Settlement package paid	—	(60,817)
Net cash provided by (used in) operating activities	4,845,747	3,442,447

(Unit: thousands of yen)

	Previous fiscal year (from October 1, 2015 to September 30, 2016)	Current fiscal year (from October 1, 2016 to September 30, 2017)
Cash flows from investing activities		
Purchase of property, plant and equipment	(62,957)	(144,442)
Purchase of intangible assets	(1,754,865)	(1,708,506)
Proceeds from sales of intangible assets	211,827	—
Purchase of investment securities	(223,088)	(2,044,975)
Proceeds from sales of investment securities	734,287	152,100
Proceeds from redemption of investment securities	—	249,975
Purchase of shares of subsidiaries and associates	(213,500)	(120,000)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(209,149)
Payments for transfer of business	(17,500)	(47,901)
Proceeds from collection of lease and guarantee deposits	1,330	1,125
Other, net	(2,737)	(2,644)
Net cash provided by (used in) investing activities	(1,327,202)	(3,874,417)
Cash flows from financing activities		
Repayments of long-term loans payable	(598,605)	(165,934)
Proceeds from issuance of common shares	98,600	88,435
Purchase of treasury shares	(1,955,144)	(1,002,724)
Proceeds from sales of treasury shares	876,300	—
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(101,600)
Cash dividends paid	(890,539)	(880,560)
Other, net	(456)	(5,975)
Net cash provided by (used in) financing activities	(2,469,846)	(2,068,358)
Effect of exchange rate change on cash and cash equivalents	(44,247)	21,277
Net increase (decrease) in cash and cash equivalents	1,004,450	(2,479,050)
Cash and cash equivalents at beginning of period	11,608,562	12,613,012
Cash and cash equivalents at end of period	12,613,012	10,133,961

(5) Consolidated Financial Statements and Important Notes

(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 20 companies, all of which are consolidated.

TeraMobile, Inc.

FIL Corporation

music.jp, Inc.

comic.jp, Inc.

movile Ltd.

Automagi Inc.

Mediano Ltd.

MShift, 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

MTI TECHNOLOGY Co., Ltd

Video Market Corporation

MGSHD Inc.

SPSHD Co., Ltd.

MTI FINTECH LAB LTD

Mytrax Inc., which was included in the Company's consolidated subsidiaries in the previous consolidated fiscal year, has been extinguished through an absorption type merger with the Company as the surviving entity, and has been excluded from the scope of consolidation.

Video Market Corporation, which was an equity method affiliate of the Company in the preceding consolidated fiscal year, has been added to the scope of consolidation from the fiscal year under review through the additional acquisition of shares in the company.

MGSHD Inc. and SPSHD Co., Ltd., newly established companies, have been consolidated subsidiaries of the Company from the consolidated fiscal year under review.

MTI FINTECH LAB LTD has been added to the scope of consolidation from the fiscal year under review following the acquisition of shares in the company.

In the consolidated fiscal year under review, MYTRAX VIETNAM Co., Ltd, a consolidated subsidiary of the Company, has been renamed to MTI TECHNOLOGY Co., Ltd.

2. Items concerning the application of equity method

- (1) Number of equity method affiliates: 4
SHANGHAI HYRON MTI CO., LTD.
StaGen Co., Ltd.
Smart Med Co., Ltd.
Authlete Japan Inc.

Video Market Corporation, which was an equity method affiliate of the Company in the preceding consolidated fiscal year, has been added to the scope of consolidation from the fiscal year under review through the additional acquisition of shares in the company, and has been excluded from the scope of application of the equity method.

Authlete Japan Inc. is included in the scope of application of the equity method following the acquisition of shares in the company in the consolidated fiscal year under review.

In the consolidated fiscal year under review, Authlete Japan Inc., an equity method affiliate of the Company, has been renamed to Authlete Inc.

- (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. Matters concerning accounting policies

- (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 uncollectable. 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.

(Segment information)

Consolidated financial results for the year ended September 30, 2017.

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, 2015 to September 30, 2016)	Current fiscal year (from October 1, 2016 to September 30, 2017)
Net assets per share	Yen 311.13	Yen 312.28
Net income per share	Yen 59.54	Yen 26.27
Diluted net income per share	Yen 58.92	Yen 26.12

Net income per share is calculated on the following basis.

	Previous fiscal year (from October 1, 2015 to September 30, 2016)	Current fiscal year (from October 1, 2016 to September 30, 2017)
Net income per share		
Net income	Thousand of yen 3,317,734	Thousand of yen 1,434,207
Amount not attributed to common stockholders	—	—
Income applicable to common stock	Thousand of yen 3,317,734	Thousand of yen 1,434,207
Average number of shares outstanding to common stock	55,722,667	54,595,270
Diluted net income per share		
Net income adjustment	—	—
Increase in common stock	584,620	310,796
(Include subscription rights to shares)	584,620	310,796
Summary of potential stock not included in the calculation of amount of diluted net income per share since there was <i>no</i> dilutive effect.	Subscription rights to share Dates of resolution by the board of directors May 1, 2015 (Number of the subscription rights to share 1,495 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)	Subscription rights to share Dates of resolution by the board of directors May 1, 2015 (Number of the subscription rights to share 1,442 rights) January 29, 2016 (Number of the subscription rights to share 3,117 rights) March 8, 2016 (Number of the subscription rights to share 223 rights) April 27, 2017 (Number of the subscription rights to share 3,902 rights)

(Significant subsequent events)

(Absorption type merger of consolidated subsidiary)

Effective October 1, 2017, the Company merged a consolidated subsidiary, Climb Factory Co., Ltd., based upon the resolution of the meeting of the Company's Board of Directors held on July 28, 2017.

1. Overview of the transaction

- (1) Name of party to the merger and nature of business

Name of party: Climb Factory Co., Ltd.

Nature of business: Provision of IT solutions for the sports industry

- (2) Date of the merger

October 1, 2017

- (3) Legal form of the merger

Based on an absorption type merger with the Company as the surviving entity, Climb Factory Co., Ltd. was dissolved.

- (4) Name of post-merger entity

No change.

- (5) Other matters concerning the overview of the transaction

The Company determined that absorbing Climb Factory Co., Ltd., which was engaged mainly in system development, information analysis and solution proposals in sports sites, etc., and managing both companies as a single entity would be more efficient.

2. Overview of the accounting treatment

In line with the Accounting Standards for Business Combinations (Corporate Accounting Standard No. 21, September 13, 2013) and the Guidelines for Application of the Accounting Standards for Business Combination and Business Divestiture, etc. (Corporate Accounting Standards Application Guideline No. 10, September 13, 2013), the Company applied accounting treatment for transactions under common control.

(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, financial merchandise, securities, derivatives trading, retirement benefit, stock options transactions, tax effect accounting, business combination and the like, asset retirement obligation, real estate for rent and the like, information related parties and the like, since the necessity to disclose those with these financial results is not considered significant.

6. Financial Statements and Important Notes

(1) Balance sheet

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2016)	Current fiscal year (As of September 30, 2017)
Assets		
Current assets		
Cash and deposits	10,942,245	7,660,853
Accounts receivable-trade	5,873,200	5,479,479
Merchandise	16,235	9,678
Supplies	4,949	9,787
Advance payments-trade	352,419	70,253
Prepaid expenses	367,491	341,184
Accounts receivable-other	76,874	98,581
Deferred tax assets	309,844	215,820
Other	71,537	137,766
Allowance for doubtful accounts	(56,948)	(48,394)
Total current assets	17,957,850	13,975,011
Non-current assets		
Property, plant and equipment		
Buildings and accompanying facilities	310,666	321,403
Accumulated depreciation	(243,439)	(256,074)
Buildings and accompanying facilities, net	67,227	65,329
Tools, furniture and fixtures	256,772	366,935
Accumulated depreciation	(170,450)	(213,468)
Tools, furniture and fixtures, net	86,322	153,467
Total property, plant and equipment	153,549	218,796
Intangible assets		
Patent right	5,702	50,083
Right of trademark	16,497	15,683
Software	2,139,454	1,861,153
Other	1,849	1,849
Total intangible assets	2,163,502	1,928,769
Investments and other assets		
Investment securities	571,506	1,864,513
Shares of subsidiaries and associates	1,616,161	1,915,592
Long-term loans receivable	500,000	475,000
Long-term loans receivable from employees	452	85
Long-term prepaid expenses	6,203	7,991
Lease and guarantee deposits	469,928	461,647
Deferred tax assets	786,318	1,046,538
Other	66,462	116,879
Allowance for doubtful accounts	(17,519)	(63,532)
Total investments and other assets	3,999,514	5,824,714
Total non-current assets	6,316,567	7,972,280
Total assets	24,274,418	21,947,292

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2016)	Current fiscal year (As of September 30, 2017)
Liabilities		
Current liabilities		
Accounts payable-trade	921,945	878,759
Accounts payable-other	2,318,919	1,944,565
Accrued expenses	439,168	320,617
Income taxes payable	1,317,439	556,469
Accrued consumption taxes	266,093	54,729
Advances received	213,028	108,289
Deposits received	62,456	68,813
Allowance for coin usage	188,361	148,536
Provision for directors' bonuses	44,450	20,025
Other	12,722	74,265
Total current liabilities	5,784,586	4,175,072
Non-current liabilities		
Provision for retirement benefits	895,206	1,076,918
Other	21,587	34,111
Total non-current liabilities	916,794	1,111,030
Total liabilities	6,701,380	5,286,102
Net assets		
Shareholders' equity		
Capital stock	5,012,181	5,069,848
Capital surplus		
Legal capital surplus	4,817,250	4,874,918
Other capital surplus	379,794	379,794
Total capital surplus	5,197,045	5,254,712
Retained earnings		
Legal retained earnings	7,462	7,462
Other retained earnings		
Retained earnings brought forward	9,304,451	9,367,917
Total retained earnings	9,311,913	9,375,379
Treasury shares	(2,148,888)	(3,148,848)
Total shareholders' equity	17,372,252	16,551,093
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	68,682	(55,551)
Total valuation and translation adjustments	68,682	(55,551)
Subscription rights to shares	132,103	165,648
Total net assets	17,573,037	16,661,189
Total liabilities and net assets	24,274,418	21,947,292

(2) Statement of income

(Unit: thousands of yen)

	Previous fiscal year (from October 1, 2015 to September 30, 2016)	Current fiscal year (from October 1, 2016 to September 30, 2017)
Net sales	30,915,227	27,698,451
Cost of sales	4,195,682	4,125,628
Gross profits	26,719,544	23,572,823
Selling, general and administrative expenses	20,842,724	19,109,522
Operating income	5,876,819	4,463,300
Non-operating income		
Interest and dividend income	8,723	44,123
Other	7,841	17,264
Total non-operating income	16,564	61,387
Non-operating expenses		
Interest expenses	1,208	—
Other	18,839	12,626
Total non-operating expenses	20,047	12,626
Ordinary income	5,873,337	4,512,061
Extraordinary income		
Gain on extinguishment of tie-in shares	—	10,936
Gain on sales of non-current assets	4,592	—
Gain on sales of investment securities	—	154,911
Gain on reversal of subscription rights to shares	20,230	4,315
Total extraordinary income	24,823	170,163
Extraordinary losses		
Impairment loss	—	193,500
Loss on retirement of non-current assets	32,170	90,194
Loss on valuation of investment securities	100,000	200,000
Loss on valuation of shares of subsidiaries and associates	194,682	1,806,923
Settlement package	—	108,817
Total extraordinary losses	326,853	2,399,436
Income before income taxes	5,571,307	2,282,788
Income taxes-current	1,892,953	1,449,998
Income taxes-deferred	19,798	(111,236)
Total income taxes	1,912,751	1,338,761
Net income	3,658,555	944,026

(3) Statement of changes in shareholders' equity

Previous 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		
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
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
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

Current fiscal year (from October 1, 2016 to September 30, 2017)

(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		
Balance at beginning 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
Changes of items during period									
Issuance of new shares-exercise of subscription rights to shares	57,667	57,667		57,667					115,334
Dividends from surplus						(880,560)	(880,560)		(880,560)
Net income						944,026	944,026		944,026
Purchase of treasury shares								(999,959)	(999,959)
Disposal of treasury shares									—
Net changes of items other than shareholders' equity									
Total changes of items during period	57,667	57,667	—	57,667	—	63,466	63,466	(999,959)	(821,158)
Balance at of current period	5,069,848	4,874,918	379,794	5,254,712	7,462	9,367,917	9,375,379	(3,148,848)	16,551,093

	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	68,682	68,682	132,103	17,573,037
Changes of items during period				
Issuance of new shares-exercise of subscription rights to shares				115,334
Dividends from surplus				(880,560)
Net income				944,026
Purchase of treasury shares				(999,959)
Disposal of treasury shares				—
Net changes of items other than shareholders' equity	(124,233)	(124,233)	33,544	(90,688)
Total changes of items during period	(124,233)	(124,233)	33,544	(911,847)
Balance at of current period	(55,551)	(55,551)	165,648	16,661,189

(4) Notes on financial statements

(Notes on concerning going concern assumption)

Not applicable.

7. Other

(1) Changes in officers (Scheduled to take effect on December 23, 2017)

(i) Candidate for new statutory auditor

(Standing auditor) statutory auditor Minoru Takei

* Mr. Minoru Takei is a candidate for outside standing auditor.

(ii) Resigning statutory auditor

(Standing auditor) Statutory auditor Tsutomu Minoura