



**MTI Ltd.  
Annual  
Report  
2012**

## MISSION

**MTI will contribute to the realization of a futuristic society built around the rapidly evolving capabilities of mobile terminals.**

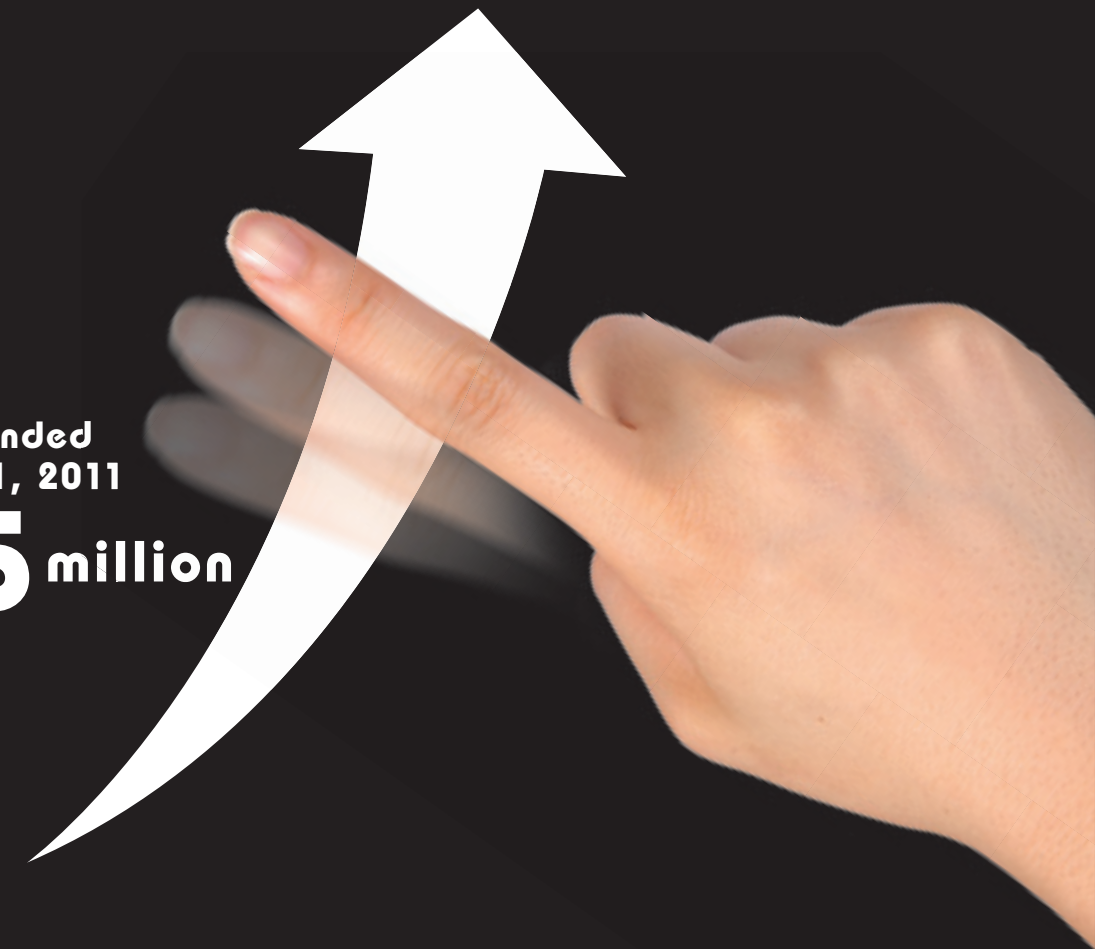
Mobile services have become an intrinsic part of modern life and essential to our everyday life, not to mention that mobile is becoming a mainstream idea for content development. MTI was among the first company to predict the potential of the smartphone market and took the lead in smartphone services. We will continue to innovate and remain one-step ahead in response to the demands of a changing world, wishing we could truly make a difference in people's lives. We will contribute to the realization of a futuristic society.

Year ended  
March 31, 2012  
**24.17** million  
Smartphone unit shipments

### **Skyrocketing smartphone users**

Due to the rapid popularization of smartphones, it is virtually assured that smartphones will go mainstream in the mobile market. Reflecting that trend, the smartphone content market is promising. Taking into account that feature phone content represents a 500-billion-yen market, the smartphone market could expand to the same level or even higher.

Year ended  
March 31, 2011  
**8.55** million



## CONTENTS

Our Success Story .....	07
Rapid Growth of Smartphone Market .....	08
Interview with President / Financial Summary .....	09
Corporate Social Responsibility .....	16
Focus on "e-books" .....	17
Stimulate potential demand for reading and find a new way in the e-book market	
Corporate Governance .....	19
Board of Directors and Statutory Auditors .....	21

<b>Financial Section</b>	
Management Discussion and Analysis (Consolidated Basis) .....	23
Consolidated Balance Sheets .....	29
Consolidated Statements of Operations .....	31
Consolidated Statements of comprehensive income .....	31
Consolidated Statements of Changes in Net Assets .....	32
Consolidated Statements of Cash Flows .....	33
Corporate and Stock Information .....	34





# Pleasure

Music, films, e-books, and games  
Joy and happiness in everyday life



# Information

Helpful and useful things to know  
Prompt provision, with accuracy

At one time, we had to search for joy and happiness. But now, with the rapid popularization of smartphones, we can easily gain delight with one device in our hands. We endeavor to provide joy and happiness to as many people as possible with our attractive services.

At one time, we either had to go to school, libraries, and bookstores or look in dictionaries, newspapers, and maps to gain helpful information. Now, we can easily collect all sorts of information with just one device in our hands. We endeavor to enrich people's lives by fulfilling their intellectual curiosity and aspirations.





# Management

Wherever you are, whenever you wish  
However busy, enjoy the convenience safely.

Satisfaction with the content is of course essential, but it is also important that its operations are simple and easy, even amidst the busy days. Members of *mopita*, our member authentication and settlement system for smartphone users, can access our new services very easily by a one-time only registry, and we have over seven million registered IDs as of January 31, 2013 because of the convenience.

## VISION

As a lifelong partner to our customers  
and to launch and lead their dreams

### Mobile Dream Factory

We will provide a huge selection of high quality services, using leading-edge technologies for greater convenience and customer satisfaction. We aim to become a mobile dream factory that will impress and attract customers.

#### Marketing

Precisely capture trends in customer needs

#### Quality Management

Efficiently create high quality content

#### Technological Development

Rapidly and flexibly respond to evolving mobile technology

#### Design

Pursue visual content design focused on simplicity

With the popularization and sophistication of mobile devices and the advances in high-speed communications technology, such as LTE (Long Term Evolution), mobile content will no doubt improve performance, and at the same time, we expect the market to continue its steady growth. MTI will further increase its four strengths—marketing, quality management, technological development, and design—to support our customers and provide convenience. We hope to become a lifelong partner.

## Our Success Story

# Becoming Japan's Largest Mobile Content Distribution Company

MTI has been increasing the number of paying subscribers by looking ahead and responding to the changing business environment. We take this rapid transition to smartphones as a great opportunity for future growth and will respond proactively to this change and strive to have the largest number of paying subscribers in the country.

## 1st Stage

(To FY 2003)

### Multiple developments of spot-type businesses

Development of a wide portfolio of businesses in mobile-related services

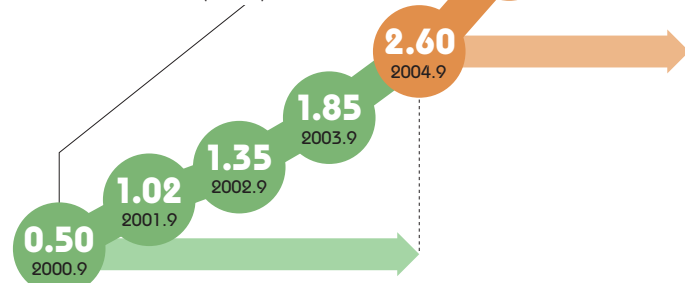
- Sales of mobile terminals
- Sales of ADSL services through telemarketing
- Content distribution
- Internet settlement system, Website system administration, etc.

Mobile phone generation 2G

Popular services Ringer melody

### Trend of paying subscribers

(Millions)



## 2nd Stage

(From FY 2004 to FY 2006)

### Transformation to stock-based businesses

Focus on two core businesses to build customer bases

- Content distribution
- Sales of medical insurance through telemarketing

Mobile phone generation 3G

Popular services Chaku-uta®

## 4th Stage

(From FY 2011)

### Smartphone business began in earnest

Focused corporate resources on smartphone services

- Content distribution

Mobile phone generation LTE

Popular services e-books

Popular services Mobile video distribution

## 3rd Stage

(From FY 2007 to FY 2010)

### Specialization in mobile content business

Concentration of management resources on mobile content services

- Content distribution

Mobile phone generation 3.5G

Popular services Chaku-uta Full®

Popular services Decorative e-mails

## Market Trend

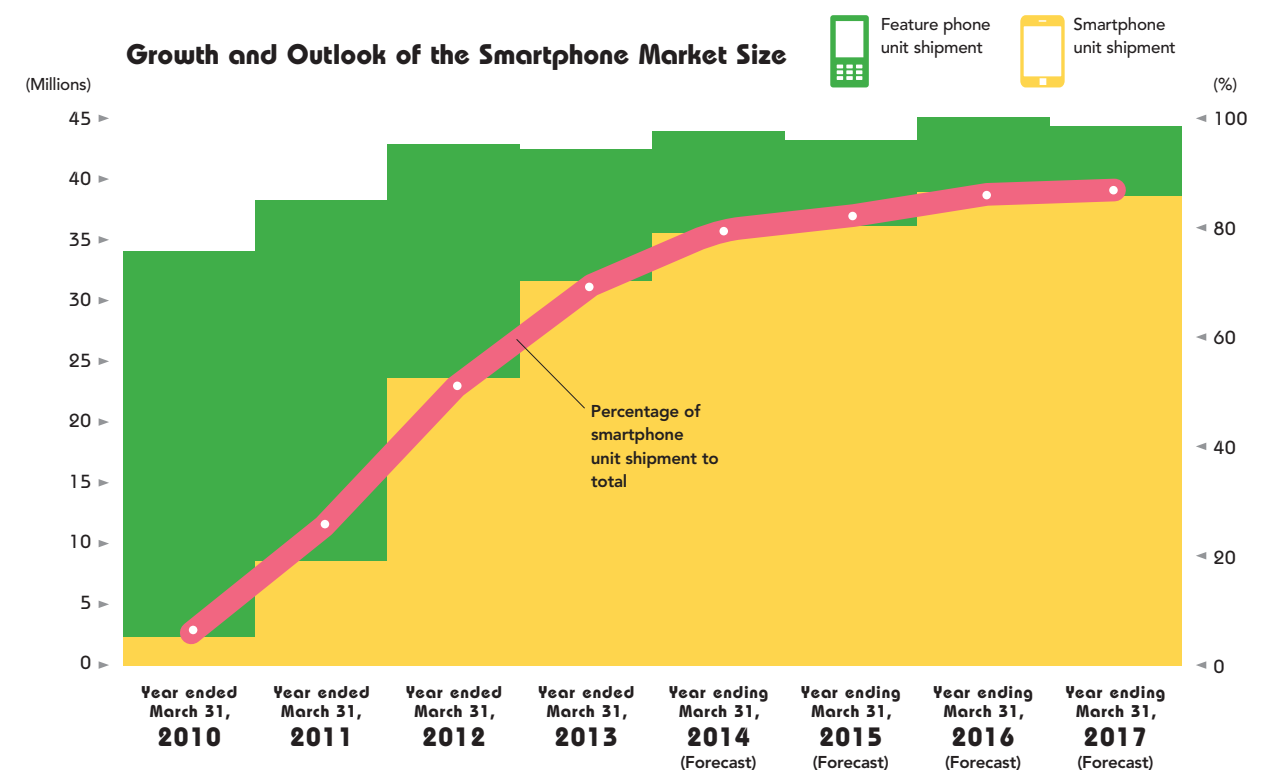
# Rapid Growth of Smartphone Market

Smartphone unit shipments in the fiscal year ended March 31, 2012, has grown 2.8 times compared to the previous fiscal year and now account for 56.6% of total mobile phone unit shipments. The ratio is expected to further increase after the fiscal year ending March 31, 2013, and smartphones are anticipated to be the mainstream in the mobile phone device market.

Also, the mobile content market for smartphones is expected to surge with the improvement of added value technologies, such as the sophistication of smartphones and the development of high-speed communications technology such as LTE.

Thus, taking into account that feature phone content represents a 500-billion-yen market, the smartphone market could expand to the same level or even higher.

MTI has taken this rapid rise in the mobile content market for smartphones as an opportunity for business growth and will focus on increasing paying subscribers through aggressive and bold business development.



(Source: MM Research Institute Ltd.)

## An Interview with the President

# I am confident about the growth of smartphone services

Number of paying smartphone subscribers grew to 3.13 million, which is 38.5% of all subscribers. The smartphone ratio is increasing as evidence of a steady transition. The decrease in subscribers paying for feature phone services is slowing, and so I believe that overall paying subscribers will resurge.

前多 俊宏

Toshihiro Maeta

President and  
Chief Executive Officer



## Q1 What is the trend in the number of paying subscribers to smartphone users?



MTI has been developing and providing content services to support our customers and enrich their daily lives, mainly via the distribution of music and health information.

Since the advent of the smartphone, we foresaw the rapid transition from the feature phone to the smartphone and worked to develop smartphone services.

As a result, not only with the mainstream services of the distribution of music, health

information, and weather reports, we achieved an increase in the number of paying subscribers to services for e-books, maps and navigation, fortune-telling, puzzles and games, and other services.

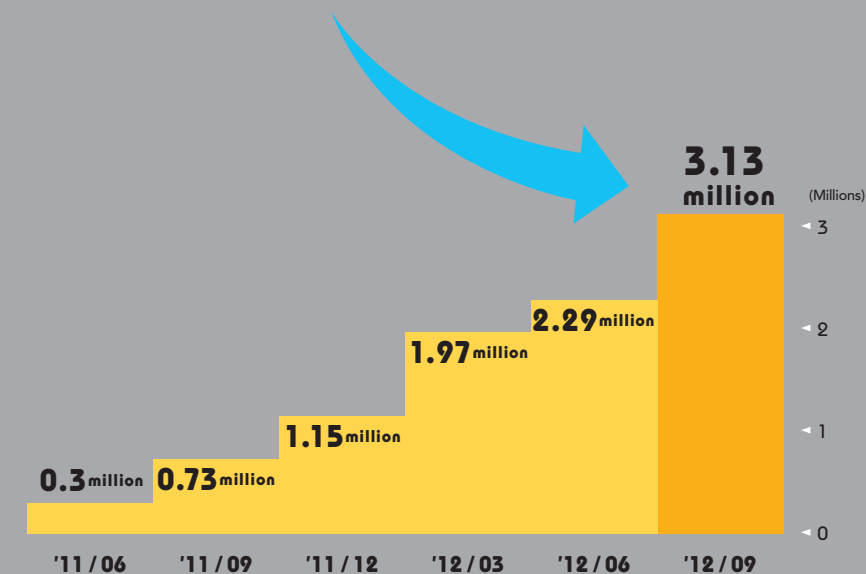
We made a preemptive move to prepare for the smartphone, so there were great opportunities in every category. By taking the lead in smartphone readiness, the number of subscribers exploded to 3.13 million.

### Paying subscribers

**8.13 million** (a decrease of 0.81 million from the previous year-end)

Smartphone paying subscribers are increasing significantly

**3.13 million** (an increase of 2.40 million from the previous year-end)





## Consolidated Financial Highlights

MTI Ltd., and Consolidated Subsidiaries  
Year ended September 30

	(Millions of yen)				
	2008	2009	2010	2011	2012
Net sales	21,615	25,732	30,836	32,342	29,382
Cost of sales	6,286	7,920	8,415	7,571	5,665
Selling, general and administrative expenses	13,602	15,599	19,289	21,067	22,012
Operating income	1,726	2,213	3,131	3,702	1,704
Income before income taxes (and minority interests)	1,371	1,870	3,054	3,578	958
Net income	563	1,669	1,824	1,797	109
Total assets	10,758	12,557	15,091	15,881	13,971
Total net assets	5,385	6,807	8,259	9,670	8,922
Net income per share : Primary (yen)	4,086.52	12,446.91	13,630.48	13,447.41	842.99
Net income per share : Fully diluted (yen)	4,048.63	12,346.21	13,629.91	—	—
Cash dividends per share (yen)	1,000	2,000	3,500	4,000	4,000
Total net assets per share (yen)	39,567.06	50,227.79	60,929.15	70,973.21	66,868.98
Equity ratio (%)	49.9	53.7	54.0	59.7	61.9
Return on equity (%)	10.3	27.6	24.5	20.4	1.2
Return on assets (%)	16.6	18.7	22.7	23.8	11.4
Number of employees (persons)	449	489	554	699	815

Notes:

ROE = Net income / [(equity\* at beginning of the period + equity\* at the end of the period) / 2]

ROA = Ordinary income / [(total assets at beginning of the period + total assets at the end of the period) / 2]

(\*) Equity = Total net assets – stock acquisition rights – minority interests

## Financial Results

MTI Ltd., and Consolidated Subsidiaries  
Year ended September 30



## Q2 How do you look back at fiscal 2012 ended September 30, 2012?

**S**martphone unit shipments expanded to 24.17 million during April 2011 and March 2012, which is approximately 2.8 times over the same period the previous year. This accounts for 56.6% of total unit shipments (22.7% in the previous year), indicating a rapid transition to the smartphone.

Likewise, in the mobile content market, the transition from the feature phone to the smartphone is on the move. We took this as a great opportunity to expand smartphone services and focused on increasing paying subscribers and enhancing our services.

We succeeded in increasing paying

subscribers with aggressive promotions and the launch of new services. Not only did the mainstream services of distribution of music, health information, and weather reports increase, but the number of paying subscribers increased for services of e-books, maps and navigation, fortune-telling, puzzles, and games.

We enhanced our services by building a system to download music using T-points and Eikyufumetsu points, both major incentive programs in Japan, and by adapting our major services for the iPhone (*yomel.jp*, e-books in April 2012, and *music.jp*, music distribution in September 2012).

As a result, our paying smartphone subscribers totaled 3.13 million at the end of fiscal 2012, which is a 2.40 million increase compared to the previous year-end.

In contrast, paying feature phone subscribers continued to decline as a consequence of the rapid transition to the smartphone and totaled 5 million at the end of fiscal 2012, which is a 3.21 million decrease from the previous year-end.

Our total number of paying subscribers was 8.13 million at the end of fiscal 2012, a 0.81 million decrease from the previous year-end, but the declining trend on a quarter basis turned into an increase in the fourth quarter.

In addition, the smartphone ratio surged to 38.5%, indicating a steady transition to the smartphone.



## Q3 What are your plans for the future?

The mobile content market for smartphone users is expected to continue to grow, and performance is expected to improve due to the popularization and sophistication of smartphone devices and advances in high-speed communications technology such as LTE. However, successful companies in this industry are limited.

We made a preemptive move to smartphone services and ran effective and aggressive promotions to take the lead in increasing the number of paying subscribers.

Also, for iPhone users, which account for approximately 40% of total smartphone users, we will get into full swing on obtaining untapped iPhone subscribers, and thus we adapted *music.jp*, our major services for the iPhone, and began distribution in September 2012.

By capturing customer demand for smartphones, we aim to increase the number of paying subscribers not only for mainstream distribution services for music and health information, but also for e-books and lifestyle

information, which is expected to significantly grow the market. In order to ensure greater customer satisfaction, we will work to enhance our existing services.

Specifically, we will work on the following services.

### ● Music Content



*music.jp* is our main business and accounts for a significant amount of the total sales and profit. This service plays a key role in supporting the potential growth of the mobile content market as a funding source, so we will continue to focus on increasing the number of paying smartphone subscribers.

We will increase convenience for customers not just by providing popular music but also by enhancing our services. In



particular, we made the service compatible with all devices and operating systems. We created a service that allows customers to enjoy music anywhere, anytime.

To increase membership and prevent resignations, we will endeavor to improve customer satisfaction by providing settlement systems that include reward points, implementing social media functions for sharing music playlists, increasing occasions to enjoy music, and improving convenience for the customers.

### ● Healthcare Contents

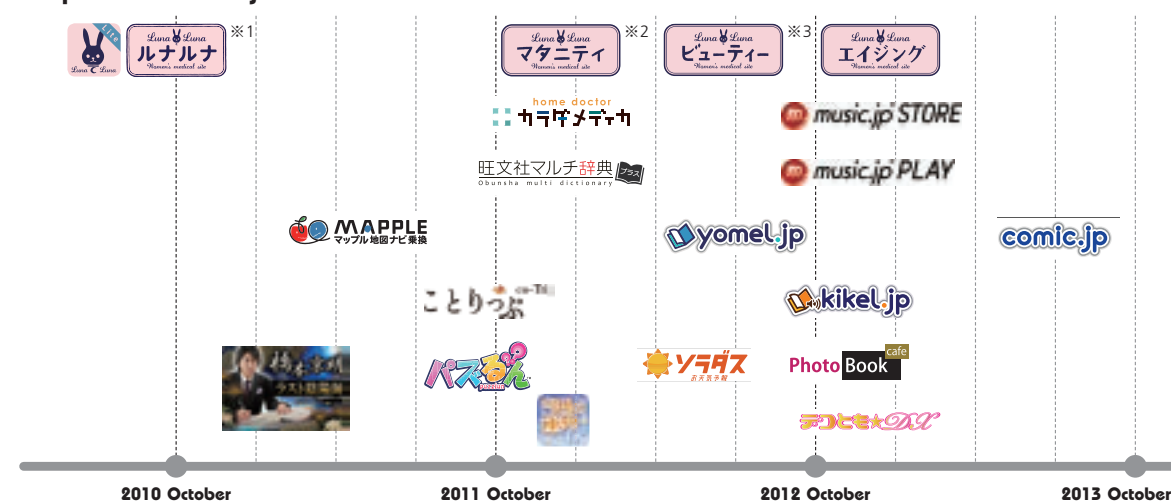


*Luna Luna* is our second main business and accounts for a large portion of the total sales and profit. This service plays a key role in supporting the potential growth of the mobile content market as a funding source, so we will continue to focus on increasing the number of paying smartphone subscribers.

Putting *Luna Luna* as the core site, we will provide healthcare support services to women of all ages, including forecasts of menstrual dates and ovulatory dates and information on cosmetics, diet, pregnancy, childcare, and anti-aging. We plan to expand the range of services to meet the needs of people of all generations.

Additionally, we plan to provide healthcare support services to people of all ages and gender. The market is huge and promising, and with aggressive investments, we will work on increasing paying subscribers.

### Adaption of MTI's major contents to iPhone

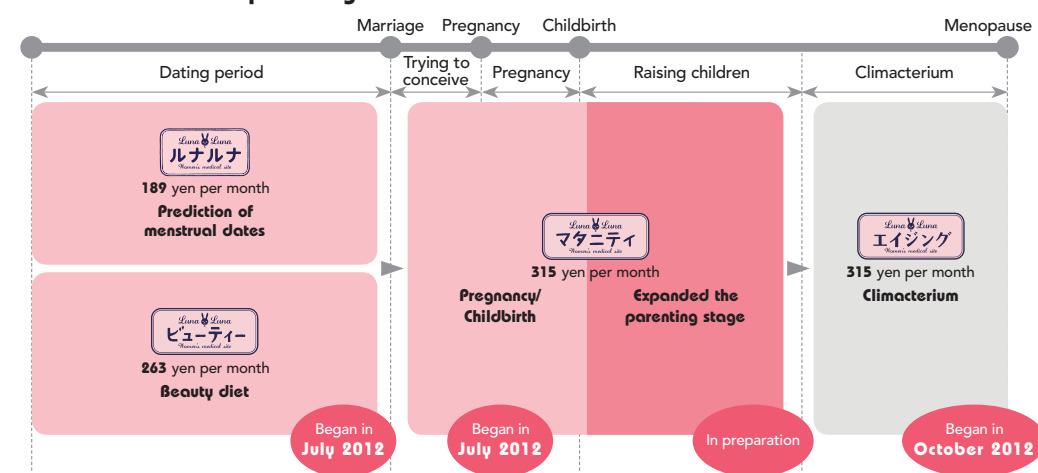


Note 1: Luna Luna★Women's Medical Site for iOS devices, which began service in July 2010, was renamed Luna Luna in July 2012.

Note 2: umoo! BabyMachi for iOS devices, which began service in March 2012, was renamed Luna Luna Maternity in July 2012.

Note 3: Luna Luna Plus for iOS devices, which began service in November 2011, was renamed Luna Luna Beauty in July 2012.

### Luna Luna services by life stage





## ● Lifestyle and Entertainment Information Content



In the lifestyle and entertainment content business, we provide weather reports, traffic reports, map guides, e-books, games, fortune telling, and much more. We are developing the business into a funding source following music and healthcare content and exploiting the potential of new business fields.

We will capture the trends in technology, lifestyle, and customer demand to develop and provide new services. Hypothesis testing

will be carried out for effective promotional activities, which will allow us to aggressively invest in cost beneficial, promising fields and increase our paying subscribers.

Furthermore, for continuous provision of customer satisfaction, we will not stop here but remain current and strive to be in the forefront of multi-device, multi settlement systems and coordinate between different devices and social media.



## Corporate Social Responsibility

# Our work for corporate social responsibility

### Charitable Downloads

music.jp is engaged in a new type of social contribution through mobile music delivery. We donate a portion of revenues from the download delivery service to support nature conservation projects, activities for deprived children of the world, and to sponsor global environmental events.

### Support for Disaster Victims

Soradas Weather Forecast supports the victims of natural disasters by donating a portion of its revenues through the Japanese Red Cross.



### Cooperation to Pink Ribbon Festival

Luna Luna, our women's physical and mental health information website, supported the *Pink Ribbon Festival 2012* (hosted by the Japan Cancer Society) held to raise public awareness of the importance of early detection, diagnosis, and treatment of breast cancer. We hope that as many women as possible will raise awareness of self-care by learning more about breast cancer and understanding the importance of breast cancer screening through this activity.

<Luna Luna supports the Pink Ribbon Campaign to raise public awareness of the importance of early detection, diagnosis, and treatment of breast cancer.>



This is the mark for the Pink Ribbon Festival (hosted by the Japan Cancer Society).

### Support for Children of the World

In order to support the healthy growth of children around the world, MTI is promoting activities that require a little effort and attention from each employee.

#### Collection of Ecocaps

On seeing all the plastic bottles thrown away in the Company's rubbish bins, an employee began to collect bottle caps. The collection campaign gradually spread and has now become a company-wide activity. We collected and sold 181,000 caps in 2012 to a recycling company through the NPO Ecocap Movement. The proceeds were donated to the certified NPO, the Japan Committee for Vaccines for the World's Children (JCV), which provided vaccinations for 210 children.

#### Use of Red Cross Paper and Vaccine Paper

MTI aggressively uses *Red Cross Paper* to print its corporate brochure and *Vaccine Paper* for company envelopes. By using the paper, the Company donates to the Red Cross, which sponsors global humanitarian activities, and to campaigns that provide vaccinations to children around the world.



RED CROSS PAPER

\*Red Cross Paper and Vaccine Paper: Original printing paper jointly created by Taihei Printing Co., Ltd., and Japan Pulp and Paper Co., Ltd. By using these two types of paper, donations of two yen per kilogram will be made. Red Cross Paper is a paper that includes a donation to the Japan Red Cross, and Vaccine Paper is a paper that includes a donation to the JCV.

## Focus on "e-book"

# Stimulate potential demand for reading and find a new way in the e-book market

The Japanese e-book market has been expanding steadily due to the rapid popularization of smartphones and tablets and is expected to grow further. We have captured the trend and have been working on an e-book distribution service from the early stage. Yoshihiro Kusama, our eBook Department general manager, would like to share with you our present approach, our future prospects and strategies.

Declining trends in the printed book market continue. We carried out a survey on printed books and received some negative comments, such as "I don't want to spend money on books" and "I don't have any space for books." But there were also some comments that represent our aging society saying, "It is becoming hard to read small letters." We have found out that people shun printed books for these reasons.

Recently among the younger generation, mobile devices, such as smartphones, are taking over from paper books to read. With this change in the format of books, the reading style has changed to become easy and convenient to enjoy for a short time, such as when you are commuting or waiting for someone.

The Company has taken the trend as an opportunity to expand its e-book business, which will free you from voluminous printed books and enable you to adjust the letter size. We endeavor to provide an e-book service that satisfies as many customers as possible.

Currently, our e-book service offers four services; *comic.jp* for comics, *yomel.jp* for novels, *kikel.jp* for

audiobooks, and *PhotoBookCafe* for photo collections.

*comic.jp* is working hard to attract many customers through effective promotions and by providing many popular manga titles from major publishers, such as Shueisha, Kodansha, and Shogakukan.

*yomel.jp* offers unlimited access to novels for a low flat rate and continues to deliver popular works exclusively for a limited time. Through a number of negotiations with publishers on digital rights, we will continue to fulfill and update our lineup before our competitors.

The website *kikel.jp* distributes audio picture books that allow you to "read with your ears," without the need to flip the pages. Many mothers enjoy the audio recording with images, as it enables them to take care of their child and do some other household tasks at the same time.

*PhotoBookCafe* for distribution of photo collections is also popular because of the reasonable monthly fees.

As such, we are providing the above services, armed with our "reasonable price" and "abundant

## Yoshihiro Kusama

General Manager, e-book Department  
MS Business Headquarters

Kusama became general manager of the Comic Department in December 2010. In fiscal 2011, the Company expanded its e-book Department, which handles the overall e-book market. Kusama has taken charge since its launch.



lineup."

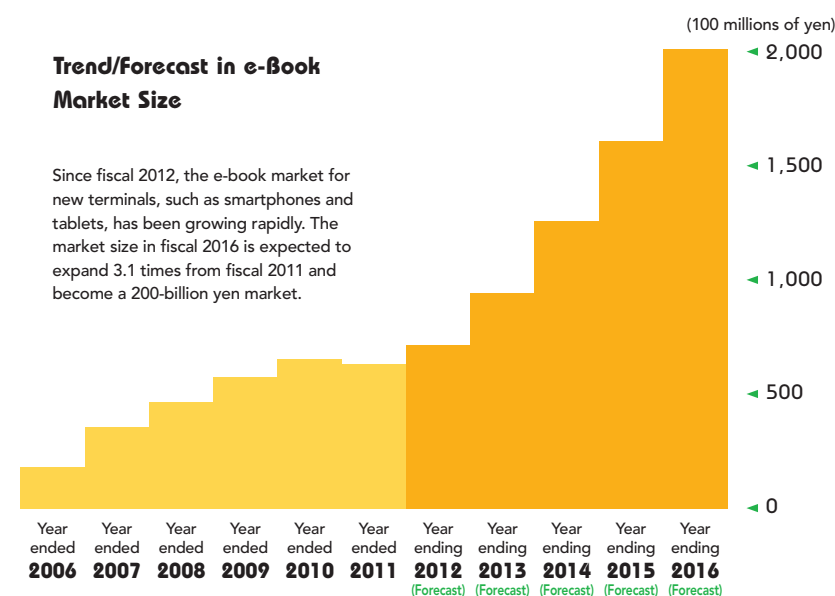
We are steadily increasing our e-book paid members. In this e-book market with high growth potential, we intend to "realize every desire to read" by developing potential demand and offering a wide range of services to suit the lifestyles of all generations.

Also, we will focus on our marketing activities, such as market surveys by age, and provide customer-oriented services. At the same time, we will strive to introduce Japanese culture to the world, including manga, anime (animated productions), and verbal entertainment, such as rakugo and Mandan, using audiobooks.

As of December 31, 2012, we have 8.16 million members paying monthly fees. But considering the growth potential of the e-book market, we expect the business will experience tremendous growth. We will strengthen the business from the medium-term point of view to make it a driving force to support company-wide growth.

## Trend/Forecast in e-Book Market Size

Since fiscal 2012, the e-book market for new terminals, such as smartphones and tablets, has been growing rapidly. The market size in fiscal 2016 is expected to expand 3.1 times from fiscal 2011 and become a 200-billion yen market.



(Source : Impress R & D)

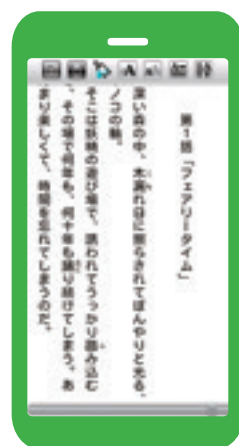
## Manner of operation of e-book distribution service yomel.jp application



Launch the application, choose, and tap the book you like from the first screen showing currently available novels. Move on to the "Book Details" screen.



Read the "Summary" and if you are interested, tap "Read this novel" and move on to each book's page. The "Browse" button allows you to read the first few pages.



Swipe the screen or tap the lower half of the screen to flip the page. Switching between vertical and horizontal layouts and adjusting letter sizes are easily done.

## MTI's e-book lineup

### comic.jp

E-comic distribution service offering more than 8,000 titles for smartphones. The titles are all famous and include the latest popular manga from a major publisher. We also offer such services as "One chapter of a popular comic for free" and "Full-color titles."

### yomel.jp

E-book distribution service for 315 yen per month. Unlimited access to more than 800 titles, having a wide variety of books from best-selling novels to popular practical books. We also have the Store Course, which allows you to purchase the title you want individually.

### kikel.jp

Audiobook distribution service for 315 yen per month. Unlimited access to audiobooks read by famous broadcasters and voice actors. We provide high quality sound for a variety of content, such as novels, picture books, rakugo, and also light novels.

### PhotoBook<sup>cafe</sup>

E-photo book distribution service for 315 yen per month. Unlimited access to more than 100 photo books from Japan and overseas on beautiful landscape sceneries, adorable animals, and popular actors and actresses. We provide various photo books with silky-smooth slideshows.



## Corporate Governance

# Decision-making Process

### Basic Approach to Corporate Governance

MTI's key management priorities include the establishment of a sound and highly transparent management structure, and the creation of systems to support timely, appropriate decision-making in response to changing business environments. One of the measures introduced with the aim of achieving these goals was the adoption of a one-year term of office for directors. This has added a sense of urgency to the management environment, since directors are required to earn the confidence of shareholders every year. We are also working to strengthen and consolidate our compliance systems.

In accordance with our IR policy, we provide timely and accurate disclosure of information including financial results and other key management data. We also emphasize two-way communication with all stakeholders to enhance management transparency and build relationships of trust with market participants.

### Implementation of Corporate Governance Policies

The tasks of the Board of Directors, which consists of eight internal directors and one external director, are to make important

management decisions and supervise directors in the performance of their duties. In addition to its regular monthly meetings, the Board also convenes extraordinary meetings as required.

There are four statutory auditors, including one standing statutory auditor. All four are currently external statutory auditors. Their task is to strengthen the supervisory functions of management through activities including attendance at Board meetings and other important management meetings.

By basing its executive organization on an operating officer system, MTI has created a structure that supports clear chains of accountability and timely decision-making. The Management Committee, consisting mainly of directors and operating officers, meets two or three times a month to discuss important operational matters. Decisions by the President and CEO are guided by these deliberations.

MTI basically appoints its directors to serve concurrently as presidents of the key subsidiaries and receives regular reports on the status of business from them. Additionally, by centralizing the control functions of the subsidiaries under the parent company, MTI Ltd., MTI monitors their business performance, as necessary, and has further strengthened its checks and balances.

MTI has appointed Ernst & Young ShinNihon LLC as its independent auditor. The independent auditor helps to ensure a high standard of transparency and accuracy in the Company's accounts by conducting regular audits and providing advice and verification on accounting matters. We have also retained outside experts on taxation and legal matters to provide advice as required.

### Basic Approach to Internal Control Systems

The corporate governance of MTI and its subsidiaries (the "MTI Group") is based on the performance of duties in accordance with certain fundamental policies, specifically compliance with laws, regulations and social ethics ("regulatory compliance, etc."), dealing in good faith with all stakeholders and appropriate disclosure of information, the maintenance of high standards of transparency and management soundness, and contribution to society through business activities that result in the creation of enterprise value.

Under these fundamental policies, we maintain and enhance internal control systems designed to ensure that business operations of the MTI Group are carried out appropriately as stipulated in the Companies Act and the Companies Act Enforcement Regulations.

### Compliance Systems

Compliance with laws and regulations is a fundamental policy for the Company. In addition to the formulation of compliance-related regulations, we have established a Compliance Committee, and we implement various initiatives relating to compliance throughout the MTI Group. Compliance-related initiatives are implemented under the leadership of the Compliance Committee in cooperation with the relevant units of the MTI Group.

We have also established an internal reporting system through which employees can directly report matters of concern, such as doubts about the legality of activities. Any officer or employee of the MTI Group who becomes aware of matters of concern, such

as actions of doubtful legality, can report such matters to the Compliance Committee and the Board of Statutory Auditors through a reporting line or the internal reporting system. Depending on the seriousness of the matter reported, the Compliance Committee or the Board of Directors will formulate recurrence prevention measures in cooperation with the relevant units and take steps to disseminate information about these measures throughout the MTI Group.

### Risk Management Systems

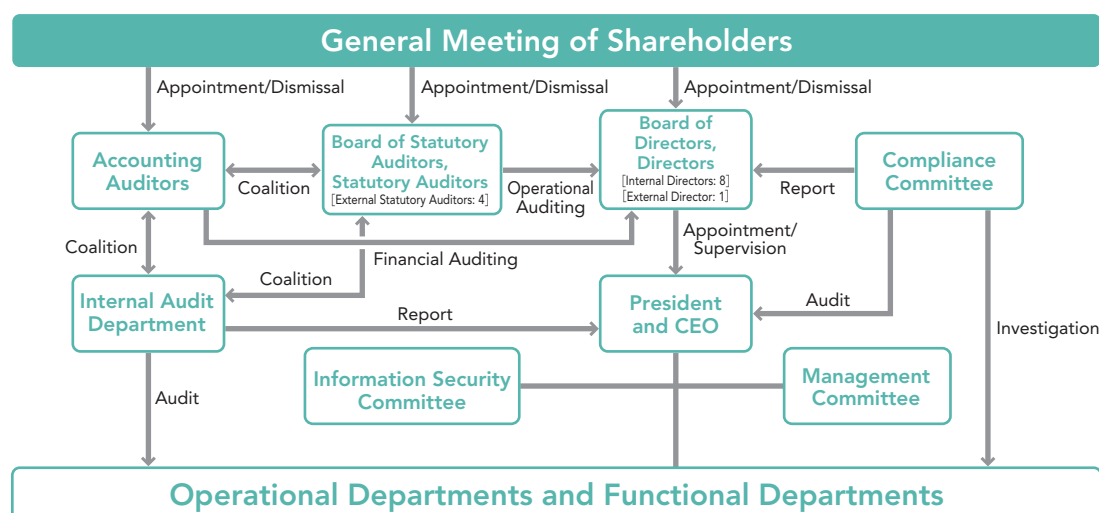
Individual organizational units and subsidiaries analyze risks relating to the performance of duties and devise countermeasures within the limits of their authority. Decisions on important matters that exceed the authority of individual business units are made after deliberations by the Management Committee or Board of Directors and are subject to continuous monitoring thereafter.

The Internal Audit Department audits risk management and related measures in relation to the performance of duties and the reliability of financial reporting and reports its findings to the President, the Board of Directors and the Board of Statutory Auditors. In terms of other risk management activities and countermeasures at the corporate level, the Compliance Committee deliberates and promotes the necessary action items and reports on the status of such actions to the Board of Directors.

We formulated rules concerning our risk management structure as a framework for the assessment of risk factors and the management of those risks throughout the MTI Group. We are continually improving and strengthening the systems used to provide comprehensive risk management for the entire MTI Group.

Steps were taken to ensure and maintain information security by formulating regulations concerning the use and protection of information assets. We established the Information Security Committee to develop and strengthen systems for the utilization and protection of information assets so that they can contribute to the business activities of the MTI Group.

### Corporate Governance Structure



# Board of Directors and Statutory Auditors



**Toshihiro Maeta**  
President and  
Chief Executive Officer

Profile  
Became the president and CEO upon  
establishment of the company in  
August 1996.



**Hiroshi Izumi**  
Executive Vice President



**Tsuguo Takahashi**  
Senior Managing Director



**Katsunori Osawa**  
Managing Director



**Ryuichi Sasaki**  
Director



**Tsutomu Minoura**  
Statutory Auditor  
(Standing Auditor)



**Kazuhiko Sakishima**  
Statutory Auditor



**Haruo Taneno**  
Executive Vice President



**Yoshihiro Shimizu**  
Senior Managing Director



**Hiroshi Matsumoto**  
Director



**Masaya Onagi**  
Director



**Yoshinobu Nakamura**  
Statutory Auditor



**Kazuko Oya**  
Statutory Auditor



## Financial Section

MTI Ltd., and Consolidated Subsidiaries  
For the fiscal year ended September 30, 2012

# Management Discussion and Analysis

(Consolidated Basis)

## Net Sales, Gross Profit

Net sales for the fiscal year under review decreased 9.2% from the previous fiscal year to ¥29,382 million, due to the overall number of paying subscribers falling compared to the year-ago period.

Gross profit fell 4.3% year-on-year to ¥23,716 million. Although the cost-of-sales ratio declined (from 23.4% in the previous fiscal year to 19.3%) reflecting the decrease in the number of music content downloads and the rise in the sales mix of Lifestyle Information Content services, which has a relatively low cost rate, it was not enough to compensate for the drop in sales.

## Operating Income

Operating income and ordinary income fell to ¥1,704 million (down 54.0% year-on-year) and ¥1,697 million (down 54.0% year-on-year), respectively. This decline was due to the drop in gross profit and the rise in selling, general, and administrative expenses compared to the previous fiscal year, mainly in terms of personnel expenses, outsourcing expenses, and depreciation and amortization, despite commission payments (agency commissions for billing paid to carriers) falling in light of the declining trend in paying subscribers.

## Net Income

Net income fell to ¥109 million, or down 93.9% year-on-year, from recording extraordinary losses, including loss on the valuation of investment securities, goodwill impairment loss, and loss on the retirement of noncurrent assets.

## Assets, Liabilities, and Net Assets

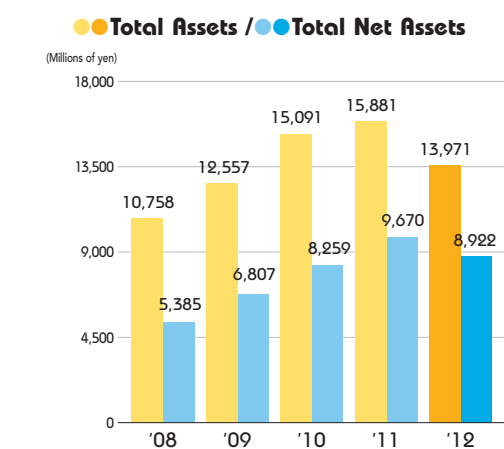
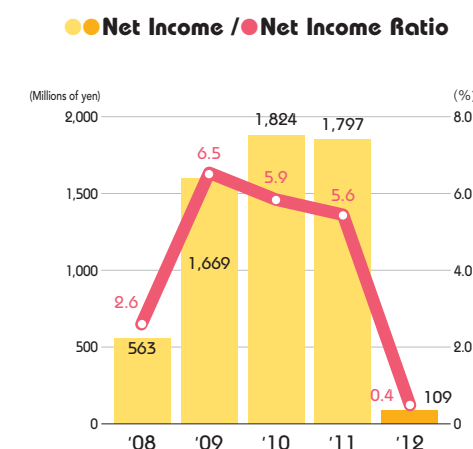
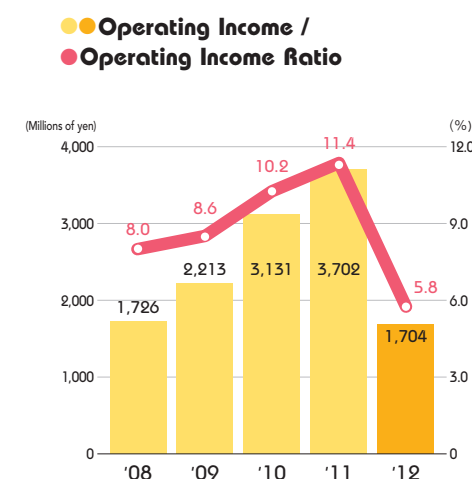
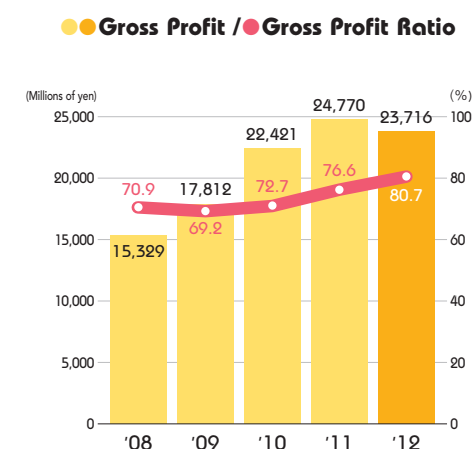
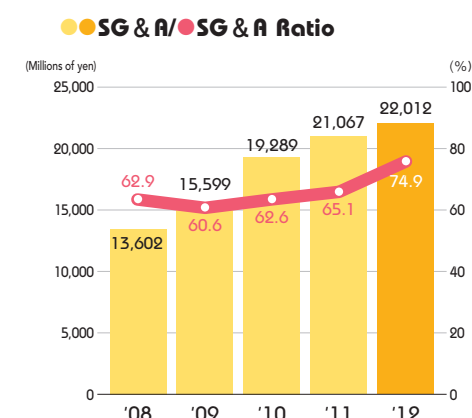
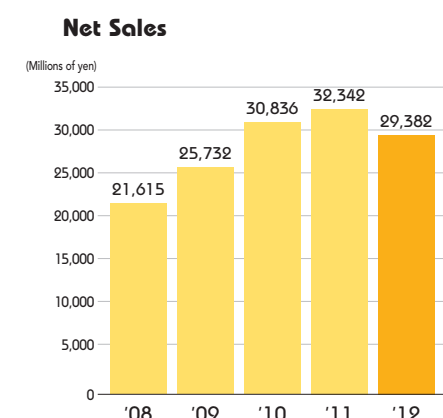
Total assets as of the end of the fiscal year under review were ¥13,971 million, shrinking ¥1,910 million from September 30, 2011.

### Assets

As for assets, current assets dropped by ¥1,839 million mainly due to decreases in cash and deposits, as well as accounts receivable-trade. Noncurrent assets fell by ¥70 million due primarily to decreases in goodwill and investment securities, despite the increase in software.

### Liabilities

As for liabilities, current liabilities dropped by ¥1,059 million mainly due to decreases in income taxes payable and accounts payable-trade, although accounts payable-other increased. Noncurrent liabilities fell by ¥101 million due to decreases in long-term loans payable and convertible bonds.



## Management Discussion and Analysis (Consolidated Basis)

## Net assets

Net assets fell ¥748 million due to the purchase of treasury stocks and dividends paid, despite recording a net income of ¥109 million.

## Cash Flows

Cash and cash equivalents as of September 30, 2012, totaled ¥2,563 million or decreased ¥545 million from the previous fiscal year-end. Details of cash flows during the fiscal year to September 30, 2012, are described below.

## Net cash provided by (used in) operating activities

Net cash provided by operating activities for the fiscal year ended September 30, 2012, was ¥2,682 million compared with ¥2,986 million for the previous fiscal year. While there were cash outflows from taxes paid and a decrease in accounts payable-trade, they were covered by income before taxes and the decreases in depreciation and amortization, as well as notes and accounts receivable-trade.

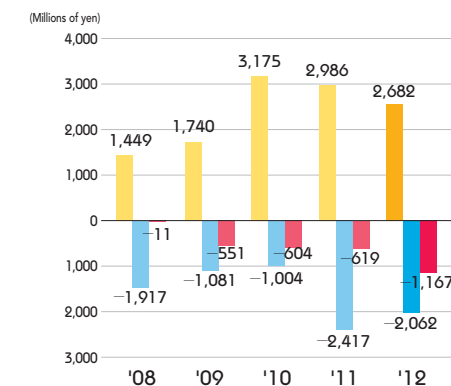
## Net cash provided by (used in) investing activities

Net cash used in investing activities for the fiscal year ended September 30, 2012, was ¥2,062 million compared with ¥2,417 million for the previous fiscal year due to cash outflow factors involving the purchase of intangible assets consisting mainly of software.

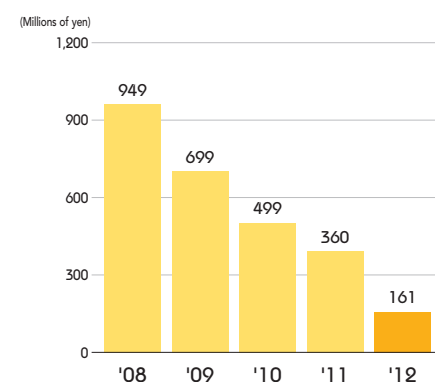
## Net cash provided by (used in) financing activities

Net cash used in financing activities for the fiscal year ended September 30, 2012, was ¥1,167 million compared with ¥619 million for the previous fiscal year. Major cash outflow included cash dividends paid, repayments of long-term loans payable, and the purchase of treasury stocks.

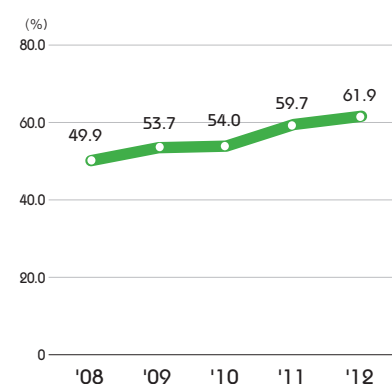
● Cash Flows from Operating Activities  
● Cash Flows from Investing Activities  
● Cash Flows from Financing Activities



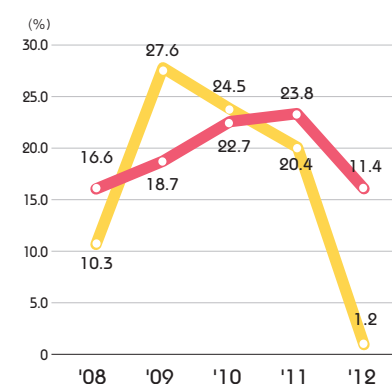
## Interest-bearing Debt



## Equity Ratio



## ● ROE/● ROA



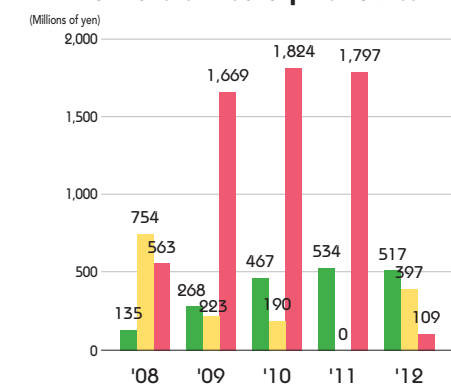
## Policy on Returning Profits to Shareholders

The Company considers increasing market capital through the creation and enhancement of corporate values, as well as continuous profit sharing, an important task.

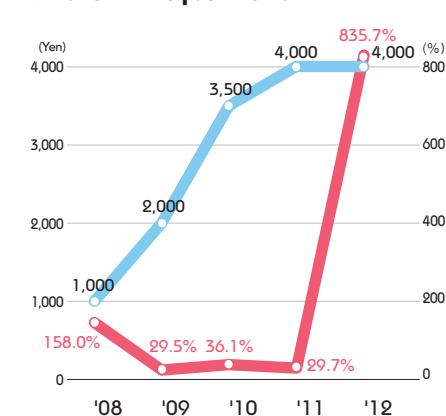
In terms of profit sharing, the Company is aiming for a total payout ratio of 35% for the medium term under the basic capital policy of achieving a well thought-out balance between sustainable medium- to long-term growth rates for sales and profit and returning profits to shareholders while striving to build internal reserves to provide for aggressive business development.

As for the year-end dividend for the fiscal year ended September 30, 2012, the Company paid an annual dividend of ¥4,000 per share from the perspective of maintaining a stable payout. As a result, the total payout ratio for the year ended September 30, 2012, will be 835.7%, since net income dropped significantly due to the recording of extraordinary losses.

● Total cash dividends  
● Purchase of treasury stock/● Net income



● Cash dividends per share  
● Trends in Payout Ratios





## Management Discussion and Analysis (Consolidated Basis)

### Business Risk and Other Risk Factors

The major risk factors for the Company in the operation of its business are listed below. As part of its information disclosure to investors, the Company also proactively discloses factors that may not necessarily be equivalent to risk factors but are considered important or beneficial in making investment decisions or in understanding the Company's business activities.

The Company is aware of the possibility of the actual occurrence of events underlying these business risks, takes action to prevent their occurrence, and is prepared to respond rapidly should those conditions arise. Nevertheless, the Company believes that any investment decision regarding its stock should be carefully considered by weighing both the risk factors and other disclosed information that may not be stated here. Readers are cautioned that the factors stated below do not cover every conceivable risk factor regarding investments in the Company's stock.

#### Reliance on key individuals

Toshihiro Maeta, the Company's president and chief executive officer, serves a pivotal role in the creation of business models and in the accumulation of expertise in data analysis techniques, which are the essential strengths of the Company. He also plays an important role in driving daily business activities. The Company has been taking steps to develop and reinforce its human resources to establish a business structure that is not excessively reliant on Mr. Maeta. Notwithstanding these efforts, if a situation was to arise in which for any reason Mr. Maeta would be unable to carry out his duties, it could have a significant impact on the business performance of the Company.

#### Unexpected changes in the business environment

Regarding the mobile content distribution services, which is a core operation of the Company, in the event of the following possible situations, future conditions could differ from the outlook for net sales or operating expenses currently envisaged by the Company. As a result, the Company might be forced to make changes in its management policies, business strategies, or other aspects that could have a significant impact on the Company's business performance.

- 1 The emergence of indeterminate factors beyond those envisaged at the time projections were made, resulting from drastic changes in the market environment. These factors could include an increase in the number of paying subscribers to smartphone services significantly falling below the Company's forecast, a decrease in the number of paying subscribers to feature phone services significantly exceeding the Company's forecast, a decline in the utilization rate of content provided for a fee due to the emergence of content provided for free, and major changes in user preferences.
- 2 A loss of the Company's ability to differentiate itself from its industry competitors in such aspects as the nature, quality, or price of content that results in the Company being unable to achieve its targeted number of paying subscribers. Other possible situations include intensifying competition with rival companies for acquiring subscribers and increasingly severe price competition destroying the Company's cost competitiveness and preventing it from maintaining paying subscriber bases.

- 3 Services or technologies become outdated because of such factors as delays in the development or provision of services to meet smartphone user needs or in accommodating changes in income structure and state-of-the-art technologies as a result of rapid progress in technical innovation. In addition, situations in which content production costs rise more rapidly than expected, making it impossible to maintain an efficient development structure for the creation of content and driving operations into the red.

- 4 The market for mobile content distribution suddenly declines or becomes saturated or advertising and other publicity do not achieve the expected sales impact, rendering the targeted goal for the number of paying subscribers impossible. Other situations include the cost of procuring content rising more rapidly than expected, making it difficult to secure a profit.

- 5 Revisions to existing laws and regulations and/or enactment of new laws and regulations that regulate the Company's business activities may give rise to changes in the content of services or to other factors, such as increases in the cost of operating and maintaining services, restrictions on business development, or possibly discontinuation of certain operations according to circumstances that may be unavoidable to satisfy the requirements of the relevant regulations.

#### Inoperability of information network

The Company engages in business activities that use communications and information systems. It is therefore susceptible to long-term inoperability of its information network caused by such events as natural disasters and accidents, system failure from an unanticipated surge in the number of users accessing the system, unauthorized access to its computers due to viruses or by third parties, or other factors. Under these circumstances, there may be no alternative but to suspend business activities, which could have an impact on the Company's business performance.

#### Leakage of personal information

The Company enforces a strict policy of completely protecting the personal information obtained in the course of its operations. Protection measures include the establishment of strict control systems for personal information, maintenance of information security, establishment and enhancement of internal regulations regarding the handling of personal information, and education and training of employees and other business partners. However, should leakage of personal information occur despite the Company's thorough precautions, the Company's business performance could be significantly affected.

#### Infringement of intellectual property rights

The Company operates and develops its business while being cautious not to infringe the intellectual property rights of third parties. However, it is possible that the Company might unknowingly infringe the intellectual property rights of a third party, and the third party concerned may initiate litigation to demand compensation, cessation, or some other remedy. These actions could have a significant impact on the Company's business performance.

## Financial Section

As of September 30, 2011 and 2012

## Consolidated Balance Sheets

Thousands of yen		
ASSETS	As of September 30, 2011	As of September 30, 2012
Current assets		
Cash and deposits	3,108,759	2,563,283
Accounts receivable-trade	7,633,523	6,188,642
Advance payments-trade	92,322	51,988
Prepaid expenses	241,414	322,454
Accounts receivable-other	110,191	84,416
Accrued income tax	—	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		
Tangible fixed assets		
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 tangible fixed assets	253,938	218,095
Intangible fixed assets		
Software	2,005,421	2,255,082
Goodwill	313,614	171,126
Other	19,743	57,546
Total intangible fixed 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		
LIABILITIES	As of September 30, 2011	As of September 30, 2012
Current liabilities		
Accounts payable-trade	1,541,416	1,233,354
Current portion of convertible bonds payable	—	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 loans payable	99,118	—
Long-term accounts payable-other	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 other accumulated 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



## Financial Section

For the year ended September 30, 2011 and 2012

## Consolidated Statements of Operations

	Thousands of yen	
	Years ended September 30, 2011	Years ended September 30, 2012
Net sales	32,342,204	29,382,297
Cost of sales	7,571,844	5,665,445
Gross profit	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 losses 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 gains		
Reversal of allowance for coin usage	246,941	—
Total extraordinary gains	246,941	—
Extraordinary loss		
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 money	—	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 income/loss	(34,213)	8,065
Net income	1,797,757	109,441

## Consolidated Statements of comprehensive income

For the year ended September 30, 2011 and 2012

	Thousands of yen	
	Years ended September 30, 2011	Years 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 associates accounted for using the equity method	(1,683)	820
Total other comprehensive income	12,922	(25,376)
Comprehensive income	1,776,465	92,130
(Breakdown)		
Comprehensive income attributable to owners of the parent	1,810,679	83,854
Comprehensive income attributable to minority interests	(34,213)	8,275

## Consolidated Statements of Changes in Net Assets

For the year ended September 30, 2011 and 2012

	Thousands of yen	
	Years ended September 30, 2011	Years ended September 30, 2012
Shareholders' equity		
Capital stock		
Balance at the beginning of the current period	2,562,740	2,562,740
Balance at the end of the current period	2,562,740	2,562,740
Capital surplus		
Balance at the beginning of the current period	3,072,920	3,072,920
Changes of items during the period		
Issuance of new shares-exercise (Exercising share option)	—	97
Disposition of treasury stock	—	5,242
Total changes of items during the period	—	5,339
Balance at the end of the current period	3,072,920	3,078,260
Accumulated earnings		
Balance at the beginning of the current period	2,580,485	3,819,710
Changes of items during the period		
Dividends from surplus	(467,908)	(534,752)
Net income	1,797,757	109,441
Changes in the scope of consolidation	—	(9)
Retirement of treasury stock	(90,624)	—
Total changes of items during the period	1,239,224	(425,320)
Balance at the end of the current period	3,819,710	3,394,389
Treasury stock		
Balance at the beginning of the current period	(90,624)	—
Changes of items during the period		
Purchase of treasury stock	—	(422,693)
Retirement of treasury stock	90,624	—
Disposition of treasury stock	—	25,283
Total changes of items during the period	90,624	(397,409)
Balance at the end of the current period	—	(397,409)
Total shareholders' equity		
Balance at the beginning of the current period	8,125,522	9,455,371
Changes of items during the period		
Issuance of new shares-exercise (Exercising share option)	—	97
Dividends from surplus	(467,908)	(534,752)
Net income	1,797,757	109,441
Changes in the scope of consolidation	—	(9)
Purchase 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 the current period	9,455,371	8,637,981

	Thousands of yen	
	Years ended September 30, 2011	Years ended September 30, 2012
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities		
Balance at the beginning of the 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 the current period	25,923	1,881
Foreign currency translation adjustment		
Balance at the beginning of the 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 the current period	6,971	5,427
Other accumulated comprehensive income		
Balance at the beginning of the 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 the current period	32,895	7,308
Subscription rights to shares		
Balance at the beginning of the 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 the current period	163,897	211,940
Minority interests		
Balance at the beginning of the 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 the current period	18,771	64,832
Total net assets		
Balance at the beginning of the current period	8,259,361	9,670,935
Changes of items during the period		
Issuance of new shares-exercise (Exercising share options)	—	97
Dividends from surplus	(467,908)	(534,752)
Net income	1,797,757	109,441
Changes in the scope of consolidation	—	(9)
Purchase of treasury stock	—	(422,693)
Disposition of treasury stock	—	30,526
Net changes of items other than shareholders' equity	81,724	68,517
Total changes of items during the period	1,411,574	(748,873)
Balance at the end of the current period	9,670,935	8,922,062

## Financial Section

For the year ended September 30, 2011 and 2012

## Consolidated Statements of Cash Flows

	Years ended September 30, 2011	Years ended September 30, 2012
Thousands of yen		
Net cash provided by (used in) 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 (decrease) in allowance for doubtful accounts	35,063	(102,755)
Increase (decrease) in allowance for coin usage	(372,485)	(76,216)
Increase (decrease) in provision for retirement benefits	95,588	108,843
Interest and dividend income	(4,340)	(4,261)
Interest expenses	13,636	9,806
Equity in (earnings) losses of affiliates	12,290	16,502
Loss on retirement of noncurrent assets	57,660	128,100
Loss (gain) 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	—
Decrease (increase) in notes and accounts receivable-trade	87,272	1,445,405
Decrease (increase) in advance payments-trade	97,702	40,333
Decrease (increase) in prepaid expenses	44,400	(91,115)
Decrease (increase) in accounts receivable-other	58,981	25,975
Increase (decrease) in notes and accounts payable-trade	(442,341)	(312,395)
Increase (decrease) in accounts payable-other	24,937	392,130
Increase (decrease) in accrued expenses	38,907	(5,926)
Increase (decrease) in accrued consumption taxes	14,196	(89,799)
Other, net	83,971	27,414
Subtotal	4,996,492	4,548,372
Interest and dividend income received	4,340	4,261
Interest expenses paid	(13,636)	(9,806)
Income taxes paid	(2,000,806)	(1,860,215)
Net cash provided by (used in) operating activities	2,986,389	2,682,611
Net cash provided by (used in) investing activities		
Purchase of tangible fixed assets	(60,065)	(30,830)
Purchase of intangible fixed 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 change in scope of consolidation	(414,829)	(170,893)
Proceeds from collection of lease and guarantee deposits	140,745	(14,523)
Other, net	(39,370)	1,469
Net cash provided by (used in) investing activities	(2,417,684)	(2,062,089)
Net cash provided by (used in) financing activities		
Repayment of long-term loans payable	(200,196)	(200,196)
Proceeds from issuance of bonds	64,704	—
Proceeds from issuance of common stock	269	—
Proceeds from sales of treasury stock	—	30,526
Purchase of treasury stock	—	(422,693)
Cash dividends paid	(467,908)	(534,752)
Other, net	(16,786)	(40,746)
Net cash provided by (used in) 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 equivalents from newly consolidated subsidiary	50,717	—
Cash and cash equivalents at end of period	3,108,759	2,563,283

## Corporate and Stock Information

## Corporate Data

Corporate name	MTI Ltd.
Founded	August 12, 1996
Capital	¥2,562 million (As of September 30, 2012)
Number of employees	815 (consolidated) (As of September 30, 2012)
Main businesses	Content distribution business
Head office	35th Floor, Tokyo Opera City Tower 3-20-2 Nishi-Shinjuku, Shinjuku-ku, Tokyo 163-1435, Japan
URL	http://www.mti.co.jp/
MTI Group Companies	TeraMobile, Inc. FIL Corporation Mediano Inc. Jibe Mobile, Inc. Playground Publishing Holdings B.V. Mytrax Inc. MShift, Inc. SHANGHAI HYRON MTI CO., LTD.

## Common Stock

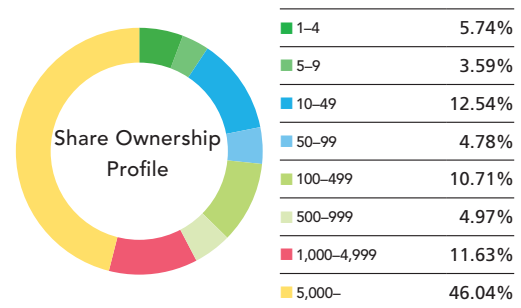
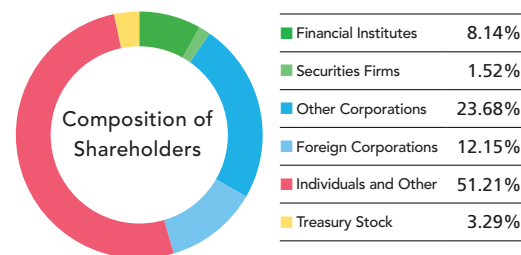
Stock Code	9438
Listing	Osaka Securities Exchange (JASDAQ)
Number of shares authorized	447,600 shares
Numbers of shares outstanding	133,688 shares
Number of shareholders	5,573 shareholders

## Major Shareholders (As of September 30, 2012)

	Number of shares held	Controlling share
Toshihiro Maeta	29,314	22.67
KMC, Inc.	25,240	19.52
Japan Trustee Service Bank, Ltd. (Trust Account)	6,998	5.41
MTI Ltd.	4,401	—
State Street Bank and Trust Company (Standing Proxy: Mizuho Corporate Bank Custody & Proxy Dept.)	2,517	1.95
NOMURA PB NOMINEES LIMITED OMNIBUS-MARGIN(CASHPB) (Standing Proxy: Nomura Securities Co., Ltd.)	2,125	1.64
Shobunsha Publications, Inc.	1,680	1.30
Trust & Custody Services Bank, Ltd. (Pension tokkin account)	1,273	0.98
CGML-IPB CUSTOMER COLLATERAL ACCOUNT (Standing Proxy: Citybank Japan Ltd.)	1,219	0.94
BAROWS Inc.	1,216	0.94

MTI Ltd., and Consolidated Subsidiaries  
For the year ended September 30, 2012Board of Directors and Statutory Auditors  
(As of January 1, 2013)

President and Chief Executive Officer	Toshihiro Maeta
Executive Vice President	Hiroshi Izumi
Executive Vice President	Haruo Taneno
Senior Managing Director	Tsuguo Takahashi
Senior Managing Director	Yoshihiro Shimizu
Managing Director	Katsunori Osawa
Director	Hiroshi Matsumoto
Director	Ryuichi Sasaki
Director	Masaya Onagi
Statutory Auditor (Standing Auditor)	Tsutomu Minoura
Statutory Auditor	Yoshinobu Nakamura
Statutory Auditor	Kazuhiko Sakishima
Statutory Auditor	Kazuko Oya

Breakdown of Shareholding by  
Investor Type (As of September 30, 2012)



**MTI Ltd.**

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**<http://www.mti.co.jp/>**

