Consolidated Financial Results for the Third Quarter of Fiscal Year Ending March 31, 2016 (Nine Months Ended December 31, 2015) (Based on J-GAAP)

February 10, 2016

Company name: T-Gaia Corp.
Listing: Tokyo Stock Exchange, First Section
Stock code: 3738
URL: http://www.t-gaia.co.jp/
Representative: Toshifumi Shibuya, President & CEO
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Scheduled date of filing Securities Report: February 12, 2016
Financial results supplementary explanatory documents: Yes
Financial results presentation: No

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Third Quarter of Fiscal Year Ending March 31, 2016 (April 1, 2015 –Dec. 31, 2015)

(1) Consolidated results of operations (nine months) (Percentages represent year-over-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to shareholders of the parent company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
3Q FY 2016	453,284	(2.3)	9,808	1.2	9,785	1.5	5,888	10.4
3Q FY 2015	464,092	(8.9)	9,693	15.4	9,637	15.5	5,333	16.1

(Note) Comprehensive income (million yen): 3Q FY 2016:5,941 (9.8%) 3Q FY 2015:5,410 (16.2%)

	Net income per share	Diluted net income per share
	Yen	Yen
3Q FY 2016	85.61	—
3Q FY 2015	77.56	—

(2)Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
3Q FY 2016	95,078	32,395	33.9
FY 2015	90,080	29,286	32.3

Reference: Shareholders' equity (million yen): 3Q FY 2016: 32,209 FY 2015: 29,104

2. Dividends

	Annual dividends				
	1Q-end	Interim	3Q-end	Yearend	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2015	—	17.50	—	20.00	37.50
FY 2016	—	20.50			
FY 2016 (forecasts)			—	20.50	41.00

Note: Revisions to the dividend forecast in the current quarter: None

3. Consolidated forecasts for the Fiscal Year Ending March 31, 2016 (April 1, 2015 – March 31, 2016)

(Percentages represent year-over-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to shareholders of the parent company		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	655,000	2.0	15,000	4.8	14,900	5.0	9,000	16.2	130.86

Note: Revisions to the financial forecast in the current quarter: None

Notes

(1) Changes in significant subsidiaries during the consolidated period (nine months) under review (changes in subsidiaries accompanying change in the scope of consolidation): None

New: None (Company name:)

Excluded: None (Company name:)

(2) Changes in accounting procedures specific to creation of quarterly consolidated financial statements: None

(3) Changes in accounting principles, estimates and restatement

1) Changes in accounting principles caused by revision of accounting standards: Yes
2) Changes in accounting principles other than those mentioned above: None
3) Changes in accounting estimates: None
4) Restatement: None

(Note) For further information, please refer to "2. Summary (Notes) Information" on page 3 of the Attachment to the summary of quarterly financial statement.

(4) Number of shares issued and outstanding (shares of common stock)

1) Number of shares outstanding (including treasury stock) at end of period	3Q FY 2016	79,074,000 shares	FY 2015	79,074,000 shares
2) Number of treasury stock at end of period	3Q FY 2016	10,300,357 shares	FY 2015	10,300,336 shares
3) Average number of shares outstanding during the period (nine months)	3Q FY 2016	68,773,651 shares	3Q FY 2015	68,756,237 shares

* Implementation of quarterly review procedures

The consolidated financial statement is not subject to audit procedures pursuant to the Financial Instruments and Exchange Act.

At the time of disclosure of the consolidated financial statement, the audit procedures of consolidated financial statements pursuant to the FIEA are already completed.

* Cautionary statement with respect to forward-looking statements

(Disclaimer on forward-looking statements)

These materials contain forward-looking information including earnings projections based on information currently available to the Company and certain assumptions considered reasonable in the judgment of the Company. Nothing contained in these materials is meant to suggest that the Company promises to attain the said projections. Moreover, due to various factors, actual results may materially differ from projections. Concerning matters to be observed regarding the assumptions underlying earnings projections and concerning the use of earnings projections, please refer to "(3) Qualitative information concerning consolidated business performance forecast" under "1. Qualitative Information Concerning the Third Quarter Financial Results" on page 3 of the Attachment to the summary of quarterly financial statement.

(Concerning 3Q earnings supplementary explanatory documents)

* 3Q earnings supplementary explanatory documents will be posted on the English site for Investors of T-Gaia Corp. afterward.

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1. Qualitative Information Concerning the Third Quarter Financial Results

(1) Explanation of operating performance

The Japanese economy in the period under review (April - December 2015) displayed a moderate recovery trend in domestic business activity, with improvements in corporate earnings as well as employment and income environments. However, concerns have arisen about the current condition of the international economy as a result of a growth slowdown in emerging economies, including China, and a sudden drop in crude oil prices, giving rise to lingering uncertainty in the future outlook.

In the market for mobile phone handset sales, which forms the business mainstay of the Group (the Company and its consolidated subsidiaries), there were favorable trends in the growing demand for tablets and sales of smartphone-related merchandise. In these fields, a suitable set of sales activities have implemented with the aim to build an environment in which all customers can feel safe and free of worry with their use of mobile phones, with focus on the efforts of the National Association of Mobile-phone Distributors in conjunction with the public announcement of a bill for partial revision of the Telecommunications Business Act, Etc.

In this operating environment, the Group has endeavored to diversify its sources of earnings and improve its profitability. Sales of mobile phone handsets and related items have reached 3.4 million units and the percentage of smartphone sales has ascended into the range of 75 to 80%.

In the Mobile Telecommunications Business, the Company has expanded sales of accessories and other smartphone-related merchandise as well as of tablets. In addition, new store openings and strategic investments in securing and training human resources were continued.

In the Solutions Business, the Company provided corporate clients with support for the introduction of smart devices and strengthened its proposals in comprehensive mobile solutions. The sales of products for fixed-line related merchandise were promoted with the start of the Hikari access service “TG Hikari,” a wholesale business providing fiber access services as an FVNO (fixed virtual network operator).

In the Settlement Services Business and Other Business, sales of gift cards performed favorably and income at overseas operations improved.

As a result of continued structural reform measures, such as company-level business efficiency enhancements, sales in the period under review posted 453,284 million yen (−2.3% compared with the year-earlier period), with operating income of 9,808 million yen (+1.2% compared with the year-earlier period), ordinary income of 9,785 million yen (+1.5% compared with the year-earlier period), and net income attributable to shareholders of the parent company of 5,888 million yen (+10.4% compared with the year-earlier period), reflecting enhanced gross margins.

Results by business segment are described below.

(Mobile Telecommunications Business)

In the period under review, sales revenues marked 378,593 million yen (−0.9% compared with the year-earlier period) due to a fall in sales volume. Although the excessive sales competition cooled off, sales of new models were below expectations. However, as a result of strengthening sales by proposing solutions that meet customer needs, unit sales of tablets continued to grow.

Initiatives were taken to raise the unit selling price per customer by expanding the line-up of various services, including price-discounted services offered in a set with optical communication lines, and in accessories and other smartphone-related merchandise, and by enhancing proposals to help make the life of the smartphone customer more satisfying and fulfilling. However, the Company was unable to make up for the effect of reduced unit sales and forward-looking investments, such as the setting up of new stores, the relocation and refurbishment of existing stores, and converting non-regular employees into full-time company employees. As a result, operating income fell to 7,110 million yen (−3.8% compared with the year-earlier period).

(Solutions Business)

In the period under review, the Company advanced its sales of comprehensive solutions, including kitting services and help desk services, while providing corporate clients with support for the introduction of smart devices. Products for fixed-line related merchandise experienced a drop in sales for traditional FTTH (fiber to the home) services due to a transition to the Hikari Collaboration model. As a result, sales fell to 18,760 million yen (−2.6% compared with the year-earlier period).

In addition to various support services in mobile solutions, sales were firm for products for fixed-line related merchandise such as Hikari Collaboration. However, as a result of expenses including system upgrades for such services as one-stop management for corporate communication systems and human resources development, operating income fell to 1,698 million yen (−8.0% compared with the year-earlier period).

(Settlement Services Business and Other Business)

In the period under review, the merchandise composition continued to change from electronic-money based merchandise (with face value amounts equaling sales revenue) to gift cards (with received commissions as the sole revenue source). As a result, sales fell to 55,930 million yen (−11.1% compared with the year-earlier period).

Gift card sales were solid due to the cultivation of new sales channels, while overseas operations achieved profit improvements in China and Singapore. As a result, operating income rose to 998 million yen (+120.5% compared with the year-earlier period).

(2) Explanation of financial position

(Assets)

Consolidated current assets at the end of the period under review were 81,497 million yen, which was 6,467 million yen higher than at the end of the previous fiscal year. This was mainly due to an increase of 8,133 million yen in products, an increase of 2,780 million yen in accounts receivable – other, and a decrease of 3,549 million in accounts receivable - trade. Fixed assets were 13,581 million yen, which was 1,469 million yen lower than at the end of the previous fiscal year. This was mainly due to a drop in goodwill, down 1,025 million yen.

As a result, consolidated total assets posted 95,078 million yen, which was 4,998 million yen higher than at the end of the previous fiscal year.

(Liabilities)

Consolidated current liabilities at the end of the period under review were 58,718 million yen, which was 4,474 million yen higher than at the end of the previous fiscal year. This was mainly due to an increase of 10,344 million yen in short-term borrowings, a decrease of 4,268 million yen in the long-term borrowings payable within one year and a decrease of 2,555 million yen in unpaid taxes. Non-current liabilities were 3,964 million yen, which was 2,585 million yen less than at the end of the previous fiscal year. This was mainly due to a 2,625 million yen decrease in long-term borrowings.

As a result, consolidated total liabilities posted 62,682 million yen, which was 1,888 million yen higher than at the end of the previous fiscal year.

(Net assets)

Consolidated net assets at the end of the period under review were 32,395 million yen, which was 319 million yen higher than at the end of the previous fiscal year. This was mainly due to an increase in retained earnings from 5,888 million yen in net income attributable to shareholders of the parent company for the period and a 2,785 million yen reduction in retained earnings due to the payment of dividends.

(3) Explanation of forward-looking information including the consolidated financial forecasts

The earnings estimates for the full year to March 2016 released on May 14, 2015, remain the same.

Nine months (April - December 2015) sales represent 69.2 percent of the full-year estimate released on May 14, 2015, with percentages for operating income, ordinary income, and net income attributable to shareholders of the parent company at 65.4 percent, 65.7 percent, and 65.4 percent, respectively.

2. Summary (Notes) Information

Change of accounting policies; change and/or restatement of accounting estimates

Change of accounting policies (Application of the Accounting Standard for Business Combinations, etc.)Beginning with the period under review, the Company applies the “Revised Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21; September 13, 2013; in the following, “Accounting Standard for Business Combinations”); the “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22; September 13, 2013; in the following, “Accounting Standard for Consolidated Financial Statements”); and the “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7; September 13, 2013; in the following, “Accounting Standard for Business Divestitures”), such that the Company recognizes as capital surplus the difference resulting from variation in equity held by the Company in subsidiaries over which the Company continues to exercise control. Moreover, the Company has changed to the accounting recognition of acquisition related cost as the cost of the fiscal year in which the cost accrued. Furthermore, for business combinations implemented since the beginning of the period under review, the Company has changed its accounting method to the effect that a correction of the allocable amount of the acquisition cost finalized after provisional accounting treatment is reflected on the quarterly consolidated financial statement whose period includes the date of the business combination. Additionally, the Company has changed the presentation of net income for the quarter, etc., and has changed the method of presentation from minority interest to non-controlling interest. In order to reflect the change in the method of presentation, reclassifications were made on the quarterly consolidated financial statement and the full-year consolidated financial statement for the respective year-earlier periods.

With regard to the application of the Accounting Standard for Business Combinations, etc., the Company observes the transitional treatment stipulated in the Accounting Standard for Business Combinations No. 58 - 2 (4), Accounting Standard for Consolidated Financial Statements No. 44 - 5 (4), and Accounting Standard for Business Divestitures No. 57 - 4 (4), and will continue the application thereof beginning with the start of the subject first-quarter accounting period.

None of the above has an effect on profits and losses.

3. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheets

(Millions of yen)

	FY 2015 (As of March 31, 2015)	3Q FY 2016 (As of December 31, 2015)
Assets		
Current assets		
Cash and deposits	2,085	1,491
Accounts receivable – trade	22,622	19,073
Products	37,612	45,745
Inventories	71	86
Other accounts receivable	10,621	13,401
Other current assets	2,029	1,702
Allowance for doubtful accounts	(13)	(4)
Total current assets	75,029	81,497
Fixed assets		
Tangible fixed assets	3,148	3,204
Intangible fixed assets		
Goodwill	3,701	2,675
Others	1,325	1,193
Total intangible fixed assets	5,027	3,869
Investments and other assets		
Leasehold deposits	4,313	4,095
Others	2,566	2,416
Allowance for doubtful accounts	(5)	(4)
Total investments and other assets	6,874	6,507
Total fixed assets	15,051	13,581
Total assets	90,080	95,078
Liabilities		
Current liabilities		
Accounts payable – trade	10,305	10,507
Short-term borrowings	14,408	24,752
Long-term borrowings payable within one year	13,768	9,500
Accounts payable – other	10,313	10,782
Unpaid taxes	3,133	577
Reserve for bonuses	1,678	963
Allowance for early subscription cancellations	172	162
Others	465	1,472
Total current liabilities	54,243	58,718
Non-current liabilities		
Long-term borrowings	4,375	1,750
Retirement benefit liabilities	400	390
Asset retirement obligations	1,234	1,296
Others	540	528
Total non-current liabilities	6,550	3,964
Total liabilities	60,794	62,682
Net Assets		
Shareholders' equity		
Capital stock	3,154	3,154
Capital surplus	5,640	5,640
Retained earnings	28,820	31,923
Acquisition of own stock	(8,755)	(8,755)
Total shareholders' equity	28,860	31,962
Accumulated other comprehensive income		
Net unrealized holding gain on securities	93	105
Foreign currency translation adjustment	150	140
Total accumulated other comprehensive income	244	246
Non-controlling interests	181	186
Total net assets	29,286	32,395
Total Liabilities and Net Assets	90,080	95,078

(2) Quarterly consolidated statements of income and Quarterly consolidated statements of comprehensive income

(Quarterly consolidated statements of income)

(Consolidated third quarter period)

(Millions of yen)

	3Q FY 2015 (from April 1, 2014 to December 31, 2014)	3Q FY 2016 (from April 1, 2015 to December 31, 2015)
Net Sales	464,092	453,284
Cost of Sales	419,315	408,184
Gross Profit	44,776	45,099
Selling, General and Administrative Expenses	35,082	35,291
Operating Income	9,693	9,808
Non-operating Income		
Interest income	2	1
Dividend income	3	3
Insurance income	20	28
Income from indemnity	29	1
Others	28	49
Total non-operating income	84	83
Non-operating Expenses		
Interest expenses	125	97
Others	15	7
Total non-operating expenses	140	105
Ordinary Income	9,637	9,785
Extraordinary Gains		
Gain on sales of fixed assets	0	4
Gain from disposal of golf club membership	6	—
Total extraordinary gains	6	4
Extraordinary Losses		
Loss on removal of fixed assets	46	25
Loss on revaluation of investments in securities	197	185
Loss on valuation of golf club memberships	—	4
Total extraordinary losses	244	214
Net income before income taxes	9,400	9,576
Income Taxes – Current	3,851	3,273
Income Taxes – Deferred	170	362
Total Income Taxes	4,021	3,636
Net Income for the Period	5,378	5,939
Net Income Attributable to Non-controlling Interests	45	51
Net Income Attributable to Shareholders of the Parent Company	5,333	5,888

(Quarterly consolidated statements of comprehensive income)

(Consolidated third quarter period)

(Millions of yen)

	3Q FY 2015 (from April 1, 2014 to December 31, 2014)	3Q FY 2016 (from April 1, 2015 to December 31, 2015)
Net Income for the Period	5,378	5,939
Other Comprehensive Income		
Net unrealized holding gain on securities	11	11
Foreign currency translation adjustment	21	(9)
Total other comprehensive income	32	1
Quarterly Comprehensive Income	5,410	5,941
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	5,365	5,889
Comprehensive income attributable to non-controlling interests	45	51

(3) Notes to quarterly consolidated financial statements

(Notes on the going-concern assumption)
Not applicable.

(Notes on significant changes in shareholders' equity)
Not applicable.

(Segment information)
Segment Information

I. 3Q FY 2015 (from April 1, 2014 to December 31, 2014)

1. Information by reportable segment on sales and income/loss amounts

(Millions of yen)

	Mobile Telecommunications Business	Solutions Business	Settlement Services Business and Other Business	Total
Net Sales	381,899	19,266	62,925	464,092
Segment Income (Operating Income)	7,393	1,846	452	9,693

2. Total income or loss of reportable segments, difference to income or loss reported in the consolidated statements of income for the period under review, and main items responsible for the difference (Matters concerning difference adjustment)
   Total income of reportable segments is consistent with operating income as stated in the quarterly consolidated statements of income.
3. Matters concerning the impairment loss from fixed assets or goodwill of reportable segments
   Not applicable.

II. 3Q FY 2016 (from April 1, 2015 to December 31, 2015)

1. Information by reportable segment on sales and income/loss amounts

(Millions of yen)

	Mobile Telecommunications Business	Solutions Business	Settlement Services Business and Other Business	Total
Net Sales	378,593	18,760	55,930	453,284
Segment Income (Operating Income)	7,110	1,698	998	9,808

2. Total income or loss of reportable segments, difference to income or loss reported in the consolidated statements of income for the period under review, and main items responsible for the difference (Matters concerning difference adjustment)
   Total income of reportable segments is consistent with operating income as stated in the quarterly consolidated statements of income.
3. Matters concerning the impairment loss from fixed assets or goodwill of reportable segments
   Not applicable.