

## Consolidated Financial Results for the Third Quarter of Fiscal Year Ending March 31, 2017 (Nine Months Ended December 31, 2016) (Based on J-GAAP)

February 9, 2017

Company name: T-Gaia Corp. Listing: Tokyo Stock Exchange, First Section  
 Stock code: 3738 URL: <http://www.t-gaia.co.jp/>  
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 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, 2017 (April 1, 2016 – Dec. 31, 2016)

(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 2017	406,035	(10.4)	9,358	(4.6)	9,383	(4.1)	6,506	10.5
3Q FY 2016	453,284	(2.3)	9,808	1.2	9,785	1.5	5,888	10.4

(Note) Comprehensive income (million yen): 3Q FY 2017 :6,638 / 11.7% 3Q FY 2016: 5,941 / 9.8%

	Net income per share	Diluted net income per share
	Yen	Yen
3Q FY 2017	115.57	—
3Q FY 2016	85.61	—

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
3Q FY 2017	87,490	26,822	30.4
FY 2016	85,930	36,018	41.7

Reference: Shareholders' equity (million yen): 3Q FY 2017:26,629 FY 2016: 35,817

### 2. Dividends

	Annual dividends				
	1Q-end	Interim	3Q-end	Yearend	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2016	—	20.50	—	22.50	43.00
FY 2017	—	26.00	—	—	—
FY 2017 (forecasts)	—	—	—	26.00	52.00

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

### 3. Consolidated forecasts for the Fiscal Year Ending March 31, 2017 (April 1, 2016 – March 31, 2017)

(Percentages represent year-over-year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	616,000	(0.7)	15,000	(4.3)	14,950	(4.3)	9,700	2.1	172.72

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): Yes

New: None (Company name: )  
Excluded: Yes (Company name: T-Gaia (Shanghai) Corp. )

(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: None
- 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 2017	79,074,000 shares	FY 2015	79,074,000 shares
2) Number of treasury stock at end of period	3Q FY 2017	23,345,757 shares	FY 2015	10,300,357 shares
3) Average number of shares outstanding during the period (nine months)	3Q FY 2017	56,297,497 shares	3Q FY 2015	68,773,651 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. within days.

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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 2016) reflected a moderate recovery in employment and household income environments, aided by the effects of the government's economic policies and monetary easing by the Bank of Japan. The outlook remains uncertain, however, given the slowdown in China and other Asian emerging economies and the UK referendum to leave the EU. Additionally, with concerns over the policy direction after the US presidential election, volatility continues to affect foreign currency markets and share prices.

In the market for mobile phone handset sales, which forms the business mainstay of the Group (the Company and its consolidated subsidiaries), unit sales decreased as excessive selling competition abated in response to the effects of the "Guidelines for the normalization of smartphone purchase price supplementation" of the Ministry of Internal Affairs and Communications.

In this operating environment, Group sales of mobile phone handsets, etc., totaled 3.26 million units, marking a decline compared with the year-earlier period, while the percentage of smartphone sales increased to around 80% of total unit sales.

Company-level business results in the period under review posted sales of 406,035 million yen (-10.4% compared with the year-earlier period), with operating income of 9,358 million yen (-4.6% compared with the year-earlier period), ordinary income of 9,383 million yen (-4.1% compared with the year-earlier period) and, due to the change the corporate income tax rate, 6,506 million yen (+10.5% compared with the year-earlier period) in net income attributable to shareholders of the parent company.

By business segment, results for the period under review developed as follows.

#### (Mobile Telecommunications Business)

Excessive selling competition abated against the backdrop of the changed market environment, leading to lower unit sales.

In order to provide visiting customers with an enjoyable in-store experience, the Company took steps to enhance customer satisfaction by implementing store improvements including relocations and large-scale store formats, while stepping up training for sales staff. Moreover, accessory shops and Mobile Virtual Network Operator (MVNO) shops were newly established. Additionally, the Company continued to raise its capability to offer high-added value propositions through sales of products and services adapted to customers' requirements and usage situations, such as smartphone-related merchandise including accessories, tablets, and optical lines, and in this way worked to enhance profitability and sustain operating income.

Based on these developments, sales marked 341,211 million yen (-9.9% compared with the year earlier period) with operating income of 7,080 million yen (-0.4% compared with the year earlier period).

#### (Solutions Business)

In mobile solutions for corporate users, large-lot demand for terminals was scant compared with the year-earlier period, resulting in lower unit sales. Even so, sales and earnings proved resilient thanks to efforts at strengthening propositions for corporate users surrounding smart-device introductions and usage assistance as well as support during usage. Moreover, the division widened its solution services across the board, including solution services catering to individual industries.

Fixed-line related products saw sales and earnings plunge compared with the year-earlier period as FLETS transitioned to a wholesale model, with the business model entering a period of transformation. Furthermore, for the own-brand optical access service "TG Optical" the division steadily enlarged the sales network by strengthening sales and sub-wholesales to partnering vendors and made forward-looking investments including expansions of service content and support frameworks.

Based on these developments, sales posted 15,833 million yen (-15.6% compared with the year-earlier period) with operating income of 1,250 million yen (-26.4% compared with the year-earlier period).

#### (Settlement Services Business and Other Business)

In the domestic settlement services business, sales have been declining due to the continuing structural shift from revenue recognition based on the face value of merchandise paid for with electronic money to revenue recognition based on gift cards, which captures only commission income. Sales of gift cards have been favorable.

In overseas operations, in December 2016 the Company divested its entire equity interest in consolidated subsidiary T-Gaia (Shanghai) Corporation. Singapore-based settlement service operations performed well.

Based on these developments, sales marked 48,990 million yen (-12.4% compared with the year-earlier period) with operating income of 1,028 million yen (+3.0% compared with the year-earlier period).

## **(2) Explanation of financial position**

### **(Assets)**

Consolidated current assets at the end of the period under review were 73,974 million yen, which was 1,697 million yen higher than at the end of the previous fiscal year. This was mainly due to a 3,572 million yen increase in products, a 3,895 million yen increase in other accounts receivable, a 2,091 million yen decrease in cash and deposits, and a 3,028 million yen decrease in accounts receivable. Non-current assets were 13,516 million yen, which was 136 million yen lower than at the end of the previous fiscal year. This was mainly due to a 305 million yen increase in investment securities and a 496 million decrease in goodwill.

As a result, consolidated total assets posted 87,490 million yen, which was 1,560 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 48,099 million yen, which was 15,143 million yen higher than at the end of the previous fiscal year. This was mainly due to a 19,727 million yen increase in short-term borrowings and a 3,082 million yen decrease in unpaid taxes. Non-current liabilities were 12,568 million yen, which was 4,387 million yen lower than at the end of the previous fiscal year. This was mainly due to a 4,346 million yen decrease in long-term borrowings.

As a result, consolidated total liabilities posted 60,668 million yen, which was 10,756 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 26,822 million yen, which was 9,196 million yen lower than at the end of the previous fiscal year. Main factors were 6,506 million yen in net income attributable to shareholders of the parent company, a 2,996 million yen decrease in retained earnings due to dividend payments, and a 12,771 million yen decrease in net assets due to the acquisition of treasury shares.

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

The earnings estimates for the full year to March 2017 released on May 13, 2016, remain the same.

Nine months (April -December 2016) sales represent 65.9 percent of the full-year estimate released on May 13, 2016, with percentages for operating income, ordinary income, and net income attributable to shareholders of the parent company at 62.4 percent, 62.8 percent, and 67.1 percent, respectively.

## **2. Summary (Notes) Information**

### **(1) Change in important subsidiaries in the period under review**

In the period under review, the Company divested its entire equity interest in the former specified subsidiary T-Gaia (Shanghai) Corporation. As a result, the entity has ceased to be a specified subsidiary of the Company and has been removed from the scope of consolidation at the end of the period under review.

### **(2) Supplementary information**

**(Application of the Application Guideline Concerning the Recoverability of Deferred Tax Assets)**

Beginning with the first quarter of the current fiscal year, the Company applies the "Application Guideline Concerning the Recoverability of Deferred Tax Assets" (Business Accounting Standard Application Guideline No. 26 of March 28, 2016).

### 3. Quarterly Consolidated Financial Statements

#### (1) Quarterly consolidated balance sheets

(Millions of yen)

	FY 2016 (As of March 31, 2016)	3Q FY 2017 (As of December 31, 2016)
<b>Assets</b>		
Current assets		
Cash and deposits	3,314	1,222
Accounts receivable – trade	19,012	15,984
Products	35,942	39,514
Inventories	65	72
Other accounts receivable	11,438	15,334
Other current assets	2,507	1,845
Allowance for doubtful accounts	(4)	(0)
Total current assets	72,276	73,974
Fixed assets		
Tangible fixed assets	3,212	3,058
Intangible fixed assets		
Goodwill	2,510	2,013
Others	1,168	1,235
Total intangible fixed assets	3,678	3,249
Investments and other assets		
Leasehold deposits	4,111	4,276
Others	2,655	2,936
Allowance for doubtful accounts	(5)	(4)
Total investments and other assets	6,762	7,208
Total fixed assets	13,653	13,516
Total assets	85,930	87,490
<b>Liabilities</b>		
Current liabilities		
Accounts payable – trade	7,803	7,918
Short-term borrowings	1,002	20,729
Long-term borrowings payable within one year	8,128	6,378
Accounts payable – other	10,523	10,976
Unpaid taxes	3,116	34
Reserve for bonuses	1,696	1,006
Allowance for early subscription cancellations	179	142
Others	505	913
Total current liabilities	32,955	48,099
Non-current liabilities		
Long-term borrowings	14,747	10,401
Retirement benefit liabilities	384	376
Asset retirement obligations	1,308	1,351
Others	515	440
Total non-current liabilities	16,956	12,568
Total liabilities	49,911	60,668
<b>Net Assets</b>		
Shareholders' equity		
Capital stock	3,154	3,154
Capital surplus	5,640	5,640
Retained earnings	35,534	39,044
Acquisition of own stock	(8,755)	(21,526)
Total shareholders' equity	35,573	26,312
Accumulated other comprehensive income		
Net unrealized holding gain on securities	110	315
Foreign currency translation adjustment	133	1
Total accumulated other comprehensive income	243	317
Non-controlling interests	201	192
Total net assets	36,018	26,822
Total Liabilities and Net Assets	85,930	87,490

**(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 2016 (from April 1, 2015 to December 31, 2015)	3Q FY 2017 (from April 1, 2016 to December 31, 2016)
Net Sales	453,284	406,035
Cost of Sales	408,184	361,670
Gross Profit	45,099	44,365
Selling, General and Administrative Expenses	35,291	35,006
Operating Income	9,808	9,358
Non-operating Income		
Interest income	1	1
Dividend income	3	5
Equity in earnings of affiliates	—	23
Insurance income	28	18
Income from indemnity	1	4
Others	49	35
Total non-operating income	83	89
Non-operating Expenses		
Interest expenses	97	48
Others	7	15
Total non-operating expenses	105	64
Ordinary Income	9,785	9,383
Extraordinary Gains		
Gain on sales of fixed assets	4	2
Gain on sales of investment securities	—	118
Gain on sales of shares of subsidiaries	—	41
Total extraordinary gains	4	162
Extraordinary Losses		
Loss on removal of fixed assets	25	28
Loss on sales of fixed assets	—	0
Loss on revaluation of investments in securities	184	—
Loss on valuation of golf club memberships	4	—
Total extraordinary losses	214	28
Net income before income taxes	9,576	9,517
Income Taxes – Current	3,273	2,454
Income Taxes – Deferred	362	498
Total Income Taxes	3,636	2,953
Net Income for the Period	5,939	6,564
Net Income Attributable to Non-controlling Interests	51	58
Net Income Attributable to Shareholders of the Parent Company	5,888	6,506

**(Quarterly consolidated statements of comprehensive income)**  
**(Consolidated third quarter period)**

(Millions of yen)

	3Q FY 2016 (from April 1, 2015 to December 31, 2015)	3Q FY 2017 (from April 1, 2016 to December 31, 2016)
Net Income for the Period	5,939	6,564
Other Comprehensive Income		
Net unrealized holding gain on securities	11	205
Foreign currency translation adjustment	(9)	(131)
Total other comprehensive income	1	73
Quarterly Comprehensive Income	5,941	6,638
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	5,889	6,580
Comprehensive income attributable to non-controlling interests	51	58



**(3) Notes to quarterly consolidated financial statements**

(Notes on the going-concern assumption)

Not applicable.

(Notes on significant changes in shareholders' equity)

Based on the resolution of the board of directors' meeting convened on February 22, 2016, dated April 13, 2016, the Company acquired by public tender 13,045,400 shares of own stock. As a result, in the first quarter of the current fiscal year shares of own stock increased 12,771 million yen in value. Total shares of own stock held by the Company at the end of the period under review valued 21,526 million yen.

(Segment information)

Segment Information

I. 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.

II. 3Q FY 2017 (from April 1, 2016 to December 31, 2016)

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	341,211	15,833	48,990	406,035
Segment Income (Operating Income)	7,080	1,250	1,028	9,358

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.