Consolidated Financial Results for the Third Quarter of Fiscal Year Ending March 31, 2018 (Nine Months Ended December 31, 2017) (Based on J-GAAP)

February 6, 2018

Company name: T-Gaia Corp.
Listing: Tokyo Stock Exchange, First Section
Stock code: 3738
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Scheduled date of filing Securities Report: February 9, 2018
Scheduled commencement date of dividend payout: -
Financial results supplementary explanation 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, 2018 (April 1, 2017 –Dec. 31, 2017)

(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 2018	400,852	(1.3)	9,983	6.7	10,046	7.1	6,628	1.9
3Q FY 2017	406,035	(10.4)	9,358	(4.6)	9,383	(4.1)	6,506	10.5

(Note) Comprehensive income (million yen): 3Q FY 2018: 6,543 / (1.4%) 3Q FY 2017: 6,638 / 11.7%

	Net income per share	Diluted net income per share
	Yen	Yen
3Q FY 2018	118.93	—
3Q FY 2017	115.57	—

(2)Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
3Q FY 2018	155,568	32,946	21.2
FY 2017	75,282	29,389	39.0

Reference: Shareholders' equity (million yen): 3Q FY 2018: 32,920 FY 2017: 29,364

2. Dividends

	Annual dividends				
	1Q-end	Interim	3Q-end	Yearend	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2017	—	26.00	—	26.00	52.00
FY 2018	—	27.50			
FY 2018 (forecasts)			—	27.50	55.00

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

3. Consolidated forecasts for the Fiscal Year Ending March 31, 2018 (April 1, 2017 – March 31, 2018)

(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	565,000	2.4	15,200	6.5	15,200	6.4	10,150	4.7	182.13

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

Disclaimer: these financial statements have been prepared in accordance with generally accepted accounting principles in Japan.
This English translation is prepared for the reader's convenience. When there are any discrepancies between the original Japanese version and English translation version, the original Japanese version always prevails.

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: Yes (Company name: QUO CARD Co., Ltd.)

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: None
2) Changes in accounting principles other than those mentioned above: None
3) Changes in accounting estimates: None
4) Restatement: None

(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 2018	79,074,000 shares	FY 2017	79,074,000 shares
2) Number of treasury stock at end of period	3Q FY 2018	23,345,796 shares	FY 2017	23,345,796 shares
3) Average number of shares outstanding during the period (nine months)	3Q FY 2018	55,728,204 shares	3Q FY 2017	56,297,497 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 page3 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 2017) proceeded on a moderate recovery path buttressed by the government's supporting economic policies and the sustained expansionary monetary policy measures of the Bank of Japan, and accompanied by personal consumption rebounding on the back of improving employment and household incomes. However, the business outlook going forward remains uncertain given factors such as US policy trends, economic conditions in Asian countries, and heightening geopolitical risks.

In the ~~vendor~~ market for mobile phone handset sales, which forms the core business field of the Group (the Company and its consolidated subsidiaries and equity-method affiliates), new charge plans offered by telecommunications carriers and proliferating sub-brands and Mobile Virtual Network Operators (MVNO) have widened the range of choices available to consumers.

In this operating environment, mobile handset, etc., unit sales of the Group rose above the level of the year-earlier period to 3.32 million units, with the ratio of smart devices surpassing 80% of the total.

In order to raise productivity, the Company took various measures such as applying flexible work schemes, setting fixed store holidays and year-end holidays, and shortening business hours, etc., reflecting the continuation of workplace reform measures and steps to increase employee satisfaction and enhance employee retention. All the while, the Company continued with steps to create new earnings platforms at each business segment.

Consolidated business results for the period under review posted net sales of 400,852 million yen (-1.3% compared with the year earlier), with operating income of 9,983 million yen (+6.7% compared with the year-earlier period), ordinary income of 10,046 million yen (+7.1 compared with the year-earlier period), and 6,628 million yen (+1.9% 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)

In the mobile telecommunications business, the Company promoted repurchase demand with offers of newly launched attractive models and new charge plans as well as low-priced handsets. Additionally, telecommunications carriers' sub-brands and MVNO handset sales developed favorably, lifting unit sales above the year-earlier result. Moreover, together with sales of smart devices, the Company took steps to strengthen its capability to offer value-added proposals and enhance profitability by offering a wide range of services including fiber optics lines as well as security enhancing contents and smartphone accessories. Furthermore, the Company aggressively invested in stores, including upgrades of carrier shops through relocation and refurbishment. Additionally, with a view to the future, the Company invested in human resources by increasing the promotion of temp-staff to regular employee status, new hiring, and stepped-up training of sales staff.

Based on these developments, net sales marked 344,128 million yen (+0.9% compared with the year earlier period) with operating income of 7,649 million yen (+8.0% compared with the year earlier period).

(Enterprise Solutions Business)

In mobile solutions for corporations, users' improving business sentiment has brought out full-scale demand for the introduction of smart devices as a means of raising business efficiency. In this operating environment, the division aggressively advanced propositions surrounding the introduction and usage methods of smart devices, resulting in an increase in unit sales compared with the year-earlier period. Likewise, the division received more orders for solution services, while helpdesk operations, strengthened in a coordinated effort with group companies, are expected to keep growing also in terms of orders at the service unit. Additionally, the Company promoted solution services tailored to the needs of individual corporations in specific industries such as in education and learning.

In products related to fixed-line telecommunications, the division has been working to strengthen its sales capabilities by seeking to identify new partner companies and nurturing existing resale wholesalers for the Company's own "TG Hikari," fiber-optics access service. As a result, the cumulative number of corporate customer lines has been steadily increasing. Furthermore, the Company made forward-looking investments by continuing to expand service content and support systems.

Based on these developments, net sales posted 17,619 million yen (+11.3% compared with the year-earlier period) with operating income of 1,406 million yen (+12.5% compared with the year-earlier period).

(Settlement Services Business and Other Business)

In settlement services business, the merchandise composition continues to transition from electronic money-based products (with revenues recognized based on face value amounts) to gift cards (with revenues recognized based only on commission fee receipts), accompanied by additional effects from the ongoing reorganization of existing sales channels mainly at convenience stores. As a result, handling volumes decreased compared with the year-earlier period.

Dated December 1, 2017, the Company acquired the entire share capital of QUO CARD Co., Ltd., making the entity a wholly-owned subsidiary. By combining the client bases and business knowhow of the Company and QUO CARD, the Company aims to increase issuance of the current QUO Card, which enjoys widespread name recognition among users, and to create a "Digital QUO Card."

In overseas settlement services business, the Singapore-based gift card business and the house card business have been performing well. Furthermore, elsewhere in Southeast Asia, after the launch in Malaysia, house card operations made a further step forward by moving into Thailand.

Based on these developments, net sales marked 39,104 million yen (-20.2% compared with the year-earlier period) with operating income of 927 million yen (-9.8% compared with the year-earlier period).

(2) Explanation of financial position

(Assets)

Consolidated current assets at the end of the period under review were 141,165 million yen, which was 79,523 million yen higher than at the end of the previous fiscal year. Main factors were an 8,098 million yen increase in cash and deposits, a 9,296 million yen increase in merchandise, a 5,167 million yen increase in other accounts receivable, and a 52,522 million yen increase in guarantee deposits. Non-current assets rose 762 million yen compared with the end of the previous fiscal year to 14,403 million yen. The main factor was a 511 million yen increase in goodwill. As a result, consolidated total assets posted 155,568 million yen, which was 80,286 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 114,488 million yen, which was 80,042 million yen higher than at the end of the previous fiscal year. This was due mainly to an 81,342 million increase in card deposits. Non-current liabilities decreased 3,312 million yen compared with the end of the previous fiscal year to 8,133 million yen. This was mainly due to a 3,471 million yen decrease in long-term borrowings.

As a result, consolidated total liabilities posted 122,622 million yen, which was 76,729 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 32,946 million yen, which was 3,557 million yen lower than at the end of the previous fiscal year. Main factors were net income for the period attributable to shareholders of the parent company and a 3,646 million yen increase in retained earnings from dividends of surplus.

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

The earnings estimates for the full year to March 2018 released on May 12, 2017, remain the same.

Nine months (April -December 2018) net sales represent 70.9 percent of the full-year estimate released on May 12, 2017, with percentages for operating income, ordinary income, and net income attributable to shareholders of the parent company at 65.7 percent, 66.1 percent, and 65.3 percent, respectively.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated balance sheets

(Millions of yen)

	FY 2017 (As of March 31, 2017)	3Q FY 2018 (As of December 31, 2017)
Assets		
Current assets		
Cash and deposits	1,901	10,000
Notes and accounts receivable-trade	12,867	13,703
Operational investment securities	—	3,066
Products	34,218	43,514
Inventories	80	94
Other accounts receivable	10,399	15,566
Guarantee deposits	—	52,522
Other current assets	2,177	2,702
Allowance for doubtful accounts	(4)	(6)
Total current assets	61,641	141,165
Fixed assets		
Tangible fixed assets	3,321	3,356
Intangible fixed assets		
Goodwill	1,847	2,359
Others	1,233	1,346
Total intangible fixed assets	3,081	3,706
Investments and other assets		
Leasehold deposits	4,342	4,386
Others	2,913	2,959
Allowance for doubtful accounts	(17)	(4)
Total investments and other assets	7,238	7,341
Total fixed assets	13,641	14,403
Total assets	75,282	155,568
Liabilities		
Current liabilities		
Accounts payable – trade	7,915	8,040
Short-term borrowings	8,332	33
Long-term borrowings payable within one year	5,503	4,628
Accounts payable – other	8,446	16,755
Unpaid taxes	1,845	1,256
Reserve for bonuses	1,747	1,084
Allowance for early subscription cancellations	164	114
Card deposits	—	81,342
Others	491	1,233
Total current liabilities	34,446	114,488
Non-current liabilities		
Long-term borrowings	9,244	5,773
Retirement benefit liabilities	374	367
Asset retirement obligations	1,388	1,489
Others	439	503
Total non-current liabilities	11,446	8,133
Total liabilities	45,892	122,622
Net Assets		
Shareholders' equity		
Capital stock	3,154	3,154
Capital surplus	5,177	5,177
Retained earnings	42,232	45,878
Acquisition of own stock	(21,526)	(21,526)
Total shareholders' equity	29,037	32,684
Accumulated other comprehensive income		
Net unrealized holding gain on securities	321	233
Foreign currency translation adjustment	6	7
Remeasurements of defined benefit plans	—	(4)
Total accumulated other comprehensive income	327	235
Non-controlling interests	24	26
Total net assets	29,389	32,946
Total Liabilities and Net Assets	75,282	155,568

(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 2017 (from April 1, 2016 to December 31, 2016)	3Q FY 2018 (from April 1, 2017 to December 31, 2017)
Net Sales	406,035	400,852
Cost of Sales	361,670	354,863
Gross Profit	44,365	45,989
Selling, General and Administrative Expenses	35,006	36,005
Operating Income	9,358	9,983
Non-operating Income		
Interest income	1	0
Dividend income	5	7
Equity in earnings of affiliates	23	33
Insurance income	18	22
Others	39	44
Total non-operating income	89	107
Non-operating Expenses		
Interest expenses	48	33
Others	15	11
Total non-operating expenses	64	44
Ordinary Income	9,383	10,046
Extraordinary Gains		
Gain on sales of fixed assets	2	4
Gain on sales of investment securities	118	—
Gain on sales of shares of subsidiaries	41	—
Total extraordinary gains	162	4
Extraordinary Losses		
Loss on removal of fixed assets	28	18
Loss on sales of fixed assets	0	9
Total extraordinary losses	28	28
Net income before income taxes	9,517	10,023
Income Taxes – Current	2,454	2,861
Income Taxes – Deferred	498	526
Total Income Taxes	2,953	3,388
Net Income for the Period	6,564	6,635
Net Income Attributable to Non-controlling Interests	58	6
Net Income Attributable to Shareholders of the Parent Company	6,506	6,628

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

(Millions of yen)

	3Q FY 2017 (from April 1, 2016 to December 31, 2016)	3Q FY 2018 (from April 1, 2017 to December 31, 2017)
Net Income for the Period	6,564	6,635
Other Comprehensive Income		
Net unrealized holding gain on securities	205	(88)
Foreign currency translation adjustment	(131)	1
Remeasurements of defined benefit plans, net of tax	—	(4)
Total other comprehensive income	73	(91)
Quarterly Comprehensive Income	6,638	6,543
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	6,580	6,536
Comprehensive income attributable to non-controlling interests	58	6

(3) Notes to the quarterly consolidated financial statements

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

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

(Change in important subsidiaries in the period under review)
With the acquisition of the entire share capital of QUO CARD Co., Ltd. in the period under review, the acquired entity qualified as a subsidiary and was therefore included in the consolidation.
The acquisition of the share capital of QUO CARD Co., Ltd. is estimated to have an effect of around 500 million yen (Note) on projected consolidated net income attributable to shareholders of the parent company for the fiscal year ending March 31, 2019.
The above estimate reflects analyses and judgments made by the Company based on information available as of the release date of these disclosure materials. Actual results for the fiscal year may due to various factors differ from projections.
Since the consolidated business results of future fiscal years will reflect the annual performances of QUO CARD Co., Ltd., it is expected that the consolidated business results of the group will be more strongly affected by the business results of QUO CARD Co., Ltd. than in the current fiscal year.
Information concerning goodwill is stated on page 8, in "2. Quarterly Consolidated Financial Statements and Notes (3) Notes to the quarterly consolidated financial statements (Segment information) II 4. Matters concerning the impairment loss from fixed assets or goodwill of reportable segments."

Note: Explanatory information concerning important earnings recognition standards for the calculation of the change in amount of projected earnings.
The following accounting treatment will be applied at QUO CARD Co., Ltd. to third-party card issuance. The face value of issued cards will be recognized as deposits. The deposit balance will be written down in accordance with the amounts used. Based on historical actual usage rates, the deposit amount that will likely not be used will be calculated and written down from the card deposit amount and recognized as revenue.
Based on the above calculation, derived revenue is estimated to be around 800 million yen.

(Segment information)

Segment Information

I. 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	Enterprise 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.

II. 3Q FY 2018 (from April 1, 2017 to December 31, 2017)

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

(Millions of yen)

	Mobile Telecommunications Business	Enterprise Solutions Business	Settlement Services Business and Other Business	Total
Net Sales	344,128	17,619	39,104	400,852
Segment Income (Operating Income)	7,649	1,406	927	9,983

2. Information concerning assets of reportable segments
   (Significant rise in assets due to the addition of a subsidiary)
   In the period under review, the acquisition of the entire share capital of QUO CARD Co., Ltd. and the accompanying inclusion of the entity in the consolidation gave rise to a significant increase in the assets of the "Settlement Service Business and Other Business" segment compared with the end of the previous fiscal year. Assets of that reportable segment posted 66,845 million yen as a result.
3. 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.

4. Matters concerning the impairment loss from fixed assets or goodwill of reportable segments
   (Significant change in the amount of goodwill)
   In the period under review, the acquisition of the entire share capital of QUO CARD Co., Ltd. and the accompanying inclusion of the entity in the consolidation gave rise to goodwill at the "Settlement Service Business and Other Business" segment. Goodwill increased 913 million yen as a result. Note that the allocation of the acquisition cost of the goodwill amount has not concluded and that the calculated amount is therefore provisional.