Consolidated Financial Results for the Fiscal Year Ended March 31, 2016 (Based on J-GAAP)

May 13, 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
Contact: Michihiro Matano, Executive Officer, GM of Corporate Planning & Strategy Dept. Tel: +81-3-6409-1010
Scheduled date of Annual General Meeting of Shareholders: June 22, 2016
Scheduled date of filing Securities Report: June 22, 2016
Scheduled commencement date of dividend payout: June 23, 2016
Financial results supplementary explanatory documents: Yes
Financial results presentation: Yes (for institutional investors & analysts)

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

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2016 (April 1, 2015 –March 31, 2016)

(1) Consolidated results of operations (twelve 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	%
FY 2016	620,074	(3.4)	15,666	9.5	15,621	10.0	9,498	22.6
FY 2015	642,095	(9.2)	14,306	12.1	14,194	12.1	7,748	13.3

(Note) Comprehensive income (million yen): FY 2016:9,564 (20.7%) FY 2015:7,924 (14.9%)

	Net income per share	Diluted net income per share	Return on Equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	Yen	Yen	%	%	%
FY 2016	138.11	—	29.3	17.8	2.5
FY 2015	112.68	—	29.4	14.6	2.2

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY 2016	85,930	36,018	41.7	520.80
FY 2015	90,080	29,286	32.3	423.19

Reference: Shareholders' equity (million yen): FY 2016:35,817 FY 2015:29,104

(3) Consolidated cash flow position

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash & cash equivalents at the of period
	Million yen	Million yen	Million yen	Million yen
FY 2016	14,628	(1,882)	(11,505)	3,314
FY 2015	21,896	(2,610)	(20,738)	2,085

2. Dividends

	Annual dividends					Total dividend	Dividend payout ratio	Dividend on Equity
	1Q-end	Interim	3Q-end	Yearend	Annual	Annual	Consolidated	Consolidate
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY 2015	—	17.50	—	20.00	37.50	2,579	33.3	9.8
FY 2016	—	20.50	—	22.50	43.00	2,957	31.1	9.1
FY 2017 (forecasts)		26.00	—	26.00	52.00		30.1	

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: Consolidated forecasts for the First-half year have not been disclosed.

Notes

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

(2) Application of simplified accounting procedures and special accounting procedures
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 “5. Summary (Notes) Information” on page 18 of the Attachment to the summary of quarterly financial statement.

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

1) Number of shares outstanding (including treasury stock) at end of period	FY 2016	79,074,000 shares	FY 2015	79,074,000 shares
2) Number of treasury stock at end of period	FY 2016	10,300,357 shares	FY 2015	10,300,336 shares
3) Average number of shares outstanding during the period	FY 2016	68,773,649 shares	FY 2015	68,760,534 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 not 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 “(1) Qualitative information concerning consolidated business performance forecast” under “1. Qualitative Information Concerning the Financial Results” on page 2 of the Attachment to the summary of quarterly financial statement.

(Concerning financial results supplementary explanatory documents and financial results presentation)
Financial results presentation for institutional investors & analysts will be made on May 18, 2016.
Financial results supplementary explanatory documents will be posted on the English site for Investors of T-Gaia Corp. after the presentation.

Attachment: Table of Contents

1. Analysis Concerning Results of Operations and Financial Position

(1) Analysis regarding results of operations

1) Results of operations for the current fiscal year

The Japanese economy in the period under review staged a moderate recovery, aided by the effects of public economic stimulus measures, with improving trends in the environments for corporate profits, employment, and household incomes. However, the economic outlook remains uncertain due to current fluctuations in financial markets such as yen appreciation and falling stock prices as well as slowing growth in emerging economies, including in China.

The market for mobile phone handset sales, which forms the business mainstay of the Group (the Company and its consolidated subsidiaries) remained strong, with favorable sales of accessories and other smartphone-related merchandise and attended by further expanding demand for tablets. Moreover, under the guidance of the Ministry of Internal Affairs and Communications, a discussion unfolded in the industry aiming to introduce appropriate marketing practices surrounding mobile phone charges and services.

In this operating environment, the Group took measures relating to the diversification of earnings sources and improvements in productivity. Sales of mobile phone handsets and related items have reached 4.69 million units and the percentage of smartphone sales has ascended into the range of 75 to 80%.

In the Mobile Telecommunications Business, in addition to strengthening smartphone-related merchandise and tablet propositions, the Company took steps to raise productivity and improve customer satisfaction by promoting store operations with the emphasis on efficiency gains and through sales staff training.

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. Moreover, as a fixed virtual network operator (FVNO), the Company marketed its proprietary fiber access service "TG Hikari" and promoted also sub-wholesaling through partnering companies.

Settlement Services Business and Other Business marked favorable sales of gift cards and improved business results at overseas operations. Additionally, efforts at structural reform continued, such as company-level efficiency enhancement measures. Based on these developments, consolidated results for the period under review marked net sales of 620,074 million yen (−3.4% year-on-year), operating income of 15,666 million yen (+9.5% year-on-year), ordinary income of 15,621 million yen (+10.0% year-on-year), and 9,498 million yen (+22.6% year-on-year) in net income attributable to shareholders of the parent company, reflecting new historical highs at all earnings levels.

Consolidated business results by segment in the period under review developed as follows.

[Mobile Telecommunications Business]

Sales revenues in the period under review marked 521,221 million yen (−2.3% year-on-year) due to lower unit sales as demand for new models fell short of expectations and competition surrounding new customer acquisition slackened. Tablets, by contrast, continued to see growing unit sales thanks to reinforced marketing based on propositions tailored to customer needs. Both smartphones and tablets increased in percent of total sales.

To increase customers' smart-device convenience, the Company expanded sales of a variety of services including price-discounted services offered in a set with optical communications lines as well as accessories and other smartphone-related merchandise, with a view to increasing the unit selling price per customer.

In addition to attracting customers and increasing sales through store enhancements based on relocation and refurbishment, the Company promoted effective store operations through appropriate staff deployment adjusted to customer traffic as well as human resources training and development of sales personnel along with advancing the transition from term-based employment to regular employee status. As a result of these developments, operating income rose to 11,718 million yen (+5.3% year-on-year).

[Solutions Business]

While providing corporate clients with support for the introduction of smart devices, the Company strengthened propositions for comprehensive mobile solutions including a diversity of support offerings, such as kitting services and helpdesk operations. By contrast, with the changes in the division's business model, fixed-line related merchandise suffered sales declines in optical communications line services, such as traditional FTTH (fiber to home). As a result of these developments, sales revenues decreased to 25,618 million yen (−2.5% year-on-year).

Sales for various kinds of support services in mobile solutions and fixed-lined related merchandise, such as Hikari Collaboration, were solid. However, earnings were impacted by system renewals surrounding communication lines and device management services for corporate users and strategic investments in human resources. As a result of these developments, operating income decreased to 2,357 million yen (−5.6% year-on-year).

[Settlement Services Business and Other Business]

Sales revenues decreased to 73,234 million yen (−10.9% year-on-year) reflecting the ongoing change in the merchandise composition from electronic-money based merchandise (with face value amounts equaling sales revenue) to gift cards (with received commissions as the sole revenue source).

Effective marketing measures such as promoting the development of new sales channels and implementing sales campaigns were instituted, resulting in favorable sales of gift cards associated also with the recognition of transient income. Moreover, business results improved at overseas operations in China and Singapore. As a result, operating income rose to 1,591 million yen (+132.3% year-on-year).

2) Outlook for the next fiscal year

As to the outlook for the Japanese economy, amid effects from economic stimulus measures guided by the government, concerns continue over the current slowdown in economic activity caused by trends in financial markets and conditions overseas. Against this backdrop, expectations are for smartphones and tablets to further increase their weightings in the market for mobile phone handset sales along with continued growth in the market for smartphone-related merchandise, such as accessories and contents. At the same time, the Company plans to develop a diversity of products and services tailored to current lifestyle features, such as optical communications services and power line broadband, while further invigorating store facilities. However, earnings of the Company are subject to as yet indeterminate effects from an initiative of the Ministry of Internal Affairs and Communications to review the appropriateness of mobile telecommunications charges and service sales and to prolong handset repurchasing cycles. Prospects are for continued change in the operating environment of the Company.

In the Mobile Telecommunications Business, the outlook is for stable demand for smartphones and tablets as well as sustained favorable sales in the growing market for smartphone-related merchandise. Moreover, the provision of one-stop services will gain full momentum, combining a variety of products and services such as optical communications services and power line broadband with mobile services, which will raise the need for the further expansion of store functions.

In the Solutions Business, continuing advances are expected in the introduction of smart devices by corporate clients, with expanding demand for solution services such as kitting services and help desk operations. In fixed-line related merchandise, the transition is seen to make headway from traditional optical communications line services like FTTH to the Hikari Collaboration model, with increased market activity and solid sales.

In the Settlement Services Business and Other Business, benefits from Internet shopping related usage and mounting demand for a diversity of music, video, and other contents are expected. The growth of the prepaid settlement market is seen to continue. Moreover, new sales channels and further expanded merchandise will sustain robust sales of gift cards.

Based on these operating conditions, consolidated results projections for the fiscal year ending March 31, 2017 call for sales of 616,000 million yen (−0.7% year-on-year), operating income of 15,000 million yen (−4.3% year-on-year), and ordinary income of 14,950 million yen (−4.3% year-on-year), with 9,700 million yen (+2.1%) in net income attributable to shareholders of the parent company. The Company will reinforce tablet and smartphone related merchandise and a variety of solution service propositions. Along with efforts to enhance customers' smart-device convenience while raising profitability, strategic investments will be made in stores and personnel - both increasingly important - as well as in proprietary service offerings. Additionally, the Company will consider proactive measures surrounding settlement service operations including overseas locations.

The factors that will have a material effect on the Company’s results of operations are described in “(4) Business risk” under “1. Results of Operations.”

3) Progress on the Company’s medium-term management plan

At the start of fiscal year ended March 31, 2016, the Company targeted net sales of 655,000 million yen, operating income of 15,000 million yen, ordinary income of 14,900 million yen, and net income attributable to shareholders of the parent company of 9,000 million yen. Compared with these projections, actual results were net sales of 620,074 million yen, operating income of 15,666 million yen, ordinary income of 15,621 million yen, and net income attributable to shareholders of the parent company of 9,498 million yen, reflecting the attainment of earning targets.

(2) Analysis concerning consolidated financial position

1) Assets, liabilities and net assets

Consolidated current assets at the end of the period under review totaled 72,276 million yen, which was 2,752 million yen lower than at the end of the previous fiscal year. This was mainly due to 3,609 million yen lower accounts receivable – trade and 817 million yen higher accounts receivable – other. Non-current assets totaled 13,653 million yen, which was 1,397 million yen lower than at the end of the previous fiscal year. This was mainly due to a 1,191 million yen decline in goodwill. As a result, total assets at the end of the consolidated fiscal year under review totaled 85,930 million yen.

Consolidated current liabilities at the end of the period under review totaled 32,955 million yen, which was 21,288 million yen lower than at the end of the previous fiscal year. This was mainly due to 13,405 million yen lower short-term borrowings, 2,502 million yen lower accounts payable – trade, and 5,640 million yen lower long-term borrowings payable within one year. Non-current liabilities totaled 16,956 million yen, marking a 10,405 million yen increase compared with the end of the previous fiscal year. The main factor was 10,372 million yen higher long-term bank borrowings. As a result, the balance of net liabilities at end of the consolidated fiscal year under review totaled 49,911 million yen.

Consolidated net assets at the end of the period under review totaled 36,018 million yen, which was 6,732 million yen higher than at the end of the previous fiscal year. This was mainly due to 9,498 million yen in net income attributable to shareholders of the parent company for the period added to retained earnings, and a 2,785 million yen deduction from retained earnings for the payment of dividends.

2) Cash flows

Consolidated cash and cash equivalents (“Cash”) at the end of the period under review were 3,314 yen million, which is 1,228 million yen higher compared with the end of the previous fiscal year.

Cash flows and major components during the consolidated fiscal year under review were as follows.

[Cash flows from operating activities]

Cash flows from operating activities totaled 14,628 million yen (compared with a 21,896 million yen increase in Cash in the previous consolidated fiscal year). This was mainly due to 15,336 million yen recognized in income before income taxes, a 3,604 decline in accounts receivable, a 1,674 million yen decline in inventories, and 5,834 million yen in expenditure for income tax payments.

[Cash flows from investing activities]

Cash flows used in investing activities totaled 1,882 million yen (compared with a 2,610 million yen decrease in Cash in the previous consolidated fiscal year). This was mainly due to an expenditure of 1,221 million yen for the acquisition of property, plant, and equipment, an expenditure of 152 million yen for the payment of leasehold deposits, an expenditure of 308 million yen for the acquisition of investment securities, an expenditure of 500 million yen for the acquisition of software, and proceeds of 355 million yen from the return of leasehold deposits.

[Cash flows from financing activities]

Cash flows used in financing activities totaled 11,505 million yen (compared with a 20,738 million yen decrease in Cash in the previous consolidated fiscal year). Main factors were a 13,405 million yen net reduction in short-term borrowings, a 13,768 million yen repayment of long-term borrowings, 18,500 million yen in proceeds from long-term borrowings, and 2,786 million yen in expenditure for the payment of dividends.

Consolidated cash flow indicators of the Group developed as follows.

	FY 2013 (consolidated)	FY 2014 (consolidated)	FY 2015 (consolidated)	FY 2016 (consolidated)
Shareholders’ equity ratio (%)	24.7	22.6	32.3	41.7
Shareholders’ equity ratio based on market prices (%)	76.3	61.2	121.3	104.3
Interest-bearing debt to cash flow ratio (%)	2,056.7	256.8	148.7	163.2
Interest coverage ratio (times)	11.5	98.8	124.2	111.0

Note 1: Cash flow indices are calculated as follows:

Shareholders’ equity ratio: Shareholders’ equity / Total assets
Shareholders’ equity ratio based on market prices: Market capitalization / Total assets
Interest-bearing debt to cash flow ratio: Interest-bearing debt / Operating cash flow
Interest coverage ratio: Operating cash flow / Interest payments

2: Numbers stated in the consolidated financial statements are used in all cases.

Market capitalization has been calculated by multiplying the share price at the end of the fiscal year with the number of shares issued and outstanding at the end of the fiscal year after deduction of treasury shares.
Cash flow is taken from the statement of cash flows.
Interest-bearing debt includes all the liabilities carried on the balance sheets that incur interest.
Interest payments are based on interest payments reported on the statement of cash flows.

(3) Basic profit allocation policy, and dividends in the current and next fiscal years

It is a basic policy of the Company to aim for the redistribution of profits, targeting a payout ratio of at least 30%, with due consideration of earnings developments and for securing the internal retention necessary for future business initiatives and for a strong management base.

As to the fiscal year-end dividend for the period under review, given that net income attributable to shareholders of the parent company has exceeded expectations, it is proposed to increase the initially projected dividend by 2.0 yen for a per-share dividend of 22.50 yen. The annual dividend, including an interim dividend of 20.50 paid last December, is projected at 43.00 yen per share (reflecting an increase of 5.50 yen per share compared with the year earlier).

For the next fiscal year, comprehensively taking into account the Company's results projections and dividend basic policies, it is planned to raise the annual per-share dividend to 52.00 yen (comprised of an interim dividend and a term-end dividend of 26.00 yen each).

Notably, in April 2016, the Company acquired 13,045,400 shares of own stock for an outlay of 12,771 million.

Notably, internal retentions will be used in accordance with the Company’s policies for expanding and strengthening existing business platforms, employee training, strategic investments, new operations, and entry into overseas markets.

(4) Business risk

Below we list risk factors that may have impact on our Group business performance, financial condition, and share price.

1) Commissions from mobile carriers

We receive a commission from mobile phone carriers for each successfully brokered subscription contract. The conditions of these contracts, such as the amount of commission, payment periods, the details of the services that these payments cover, and the percentages of the phone subscription charges that these commissions represent, differ from one telecommunications carrier to another and from time to time. When there are substantial changes to the contract conditions due to the business strategies of the telecommunications carriers, these can have major effects upon the earnings of the Group.

2) Sales agent agreements with telecommunications carriers

The sales and mediation business for mobile phones, etc., which is the core business field of the Group, is conducted by concluding sales agent agreements with the various telecommunications carriers and doing business under the conditions thus specified. The sales agent agreements with the telecommunications carriers are typically of one year's duration and automatically renewed, provided that the carrier and the Company agree to continue the contract. However, the contracts have provisions enabling the telecommunications carrier to cancel the sales agent agreement in the event that one of certain events giving grounds arises in relation to the Company, such as the commencement of bankruptcy, civil rehabilitation or other similar legal proceedings, a deterioration in credit-worthiness, or a suspension of trading or the winding-up of the Company, or in the event that some actions are committed causing a profound loss of mutual trust.

Also, there are provisions allowing the telecommunications carrier to suspend the payment of fees or to dissolve the sales agent agreement in the event that significant changes occur to the Company's shareholding structure or core management, which could potentially impact upon the business results of the Group.

As announced in a public release of the Company dated March 23, 2016, entitled "Notice concerning the Result of the Tender Offer for Shares of Own Stock and Completion of Acquisition," on April 13, 2016, the Company acquired from Mitsubishi Corporation 13,045,400 shares of own stock. While this acquisition caused a change in the structure of the shareholders of the Company, the action has no effects such as terminations of commission payments and dissolution of agency agreements with telecommunications carriers.

3) Industry competition

In the market for mobile phone handset sales, which is the core business field of the Group, the number of mobile phone contracts is exceeding the population, and the competition among operators to acquire customers is becoming a constant. We believe that competition among sales agents such as the Group will continue, and if we are unable to secure a leading competitive position there is a possibility that the Group's business performance could be affected through declining profit margins due to competition.

4) Business expansion through acquisitions, etc.

In addition to developing cooperative relationships with small and medium-sized sales agencies, and opening new shops, we may acquire other industry peers going forward to expand our business, and this could impact our financial condition and business performance.

There is no guarantee that the acquisition will produce anticipated benefits due to changes in market trends and the economic environment. A poor performance at companies we acquire could make it difficult for us to recover invested capital, and this would impact our earnings and business plans.

5) Statutory regulations and law amendments, etc.

The laws and regulations governing the business of telecommunications carrier sales agencies include the Telecommunications Business Act, the Anti-Trust Act (Act concerning Prohibition of Private Monopolization and Maintenance of Fair Trade), the Premiums and Representations Act (Act against Unjustifiable Premiums and Misleading Representations), the Personal Information Protection Act, the Mobile Phone Misuse Prevention Act (Act on Identification, etc. by Mobile Voice Communications Carriers of their Subscribers, etc. and for Prevention of Improper Use of Mobile Voice Communications Services).

In order to ensure compliance with the laws and regulations mentioned above, the Group has been strengthening its internal administrative frameworks including employee training and education. In addition, if the Group were unable to respond appropriately to amendments to laws or major systemic changes having a significant effect on the Group, the potential exists for an adverse impact on the business results of the Group.

The business results of the Group could also be affected by the promotion of policies or the creation or amendment of guidelines by government agencies, such as the Ministry of Internal Affairs and Communications.

6) Acquisition of sales staff

For the Company to further enhance customer satisfaction and the quality of sales, securing sufficient sales staff is considered a necessity. However, for the mobile phone vendor industry, securing sales staff and raising the staff retention ratio has been a problem. The main reasons are the increased amount of time required for customer interaction and the greater complexity in store operations, both resulting from the diffusion of high-performance smart phones and other terminals as well as the diversification of services. The Group will work hard to secure and retain good sales staff by building an attractive working environment and making a company-wide effort on the training of sales staff, focusing on the Career Design Academy established in a further development of the TG Academy dedicated training institution. Our measures to build an attractive working environment include introducing a personnel system that promotes permanent employment and facilitating good work-life balance.

However, failure to secure sufficient sales staff may affect the business results of the Company.

7) Relationship with the parent company

As of the submission date, Sumitomo Corporation owned 41.89% of the voting rights of the Company. Moreover, Sumitomo Corporation provides the majority of constituting members of the board of directors of the Company. In light of this, by the standards of de facto management control, Sumitomo Corporation constitutes the parent company of the Company. However, all business fields of the Group are subject to business management independent of Sumitomo Corporation.

8) Overseas business development

The Group is exposed to exchange rate risk through foreign-denominated trading transactions and capital transactions with overseas companies and when financial statements prepared in foreign currency by consolidated overseas subsidiaries are converted into yen. Moreover, the Group is exposed to country risks that may prevent the execution of business operations depending on the political, economic, and social circumstances prevailing in the jurisdictions where overseas consolidated subsidiaries of the Group are domiciled.

9) Litigation risk

The activities of the Group in its business fields are subject to constant litigation risk. In the light of the nature of the origins of litigation, the outcomes of ongoing or potential future litigation cannot be predicted. In the event that ongoing or potential future litigation ends with a ruling against the Group, this may interfere with the Group's business development, damage trust and confidence in the Group, or affect the financial status and business results of the Group.

Notably, on August 3, 2012, InComm Japan KK (main offices: Shinjuku-ku, Tokyo; president and representative director: Takuma Arai; in the following “InComm Japan”), a supplier of merchandise for the gift card business of the Company, petitioned the Tokyo District Court to grant temporary injunctions against the Company (the “Petition”). On June 12, 2013, the Tokyo District Court granted temporary injunctions ordering the Company to suspend the sales of and to recall specified merchandise of the Company (the “Injunction”).

While taking action in accordance with the Injunction, the Company filed opposition with the Tokyo District Court asking for the Injunction to be removed. On March 4, 2014, the Court acknowledged in part the claims of the Company and decided for the Injunction to be in part removed. The Company and InComm Japan respectively filed petitions for relief with the Tokyo High Court on grounds that the decision of the Tokyo District Court was made in error. However, on September 4, 2015 the Tokyo High Court passed judgment upholding the decision of the Tokyo District Court in respect of which opposition had been filed. Against this ruling, InComm Japan filed a special appeal with the Supreme Court. However, the filing was rejected by the Supreme Court on March 23, 2016. As a result, the Injunction imposed by the Tokyo District Court became final, bringing the Injunction proceedings to an end.

Moreover, InComm Japan has simultaneously with filing petition for the Injunction initiated court action against the Company at the Tokyo District Court seeking to prohibit the sales and demanding the return of specified merchandise as well as claiming indemnification for damages (claimed indemnification amount: 658 million yen) and has since been advancing the litigation proceedings. The Company has requested for the claims of InComm Japan to be dismissed and will continue to take action to have its assertions recognized.

2. Current Conditions of the Corporate Group

The Group (the Company and affiliates of the Company) at the consolidated fiscal year under review is comprised of T-Gaia and its five consolidated subsidiaries (TG Miyazaki Co., Ltd., T-Gaia (Shanghai) Corporation, WAM!NET Japan K.K. and two others) and one equity-method affiliate. Main business lines are the Mobile Telecommunications Business centered on sales of mobile phones, etc., for consumers, the Solutions Business engaged in sales of mobile phones for corporate users and intermediation in sales of optical communication line services such as FTTH, and the Settlement Services Business and Other Business engaged in PIN and gift card sales.

The specific operations of the Company are described in below. Our main activities are as follows:

(1) Mobile Telecommunications Business

The main activities of the Mobile Telecommunications Business are the intermediation in sales contracts for mobile phone and PHS services, and the sale of mobile phones and handsets. We broker communication services for mobile phone carriers (NTT DOCOMO, Inc., KDDI Group, and SOFTBANK Group), and receive a commission for each successfully concluded subscription contract based on our sales agent agreement with each carrier. We broker communication services and sell mobile phones to consumers through our nationwide distribution channels, which include secondary sales agencies (volume electronics retailers and general sales agencies) in addition to directly-managed shops.

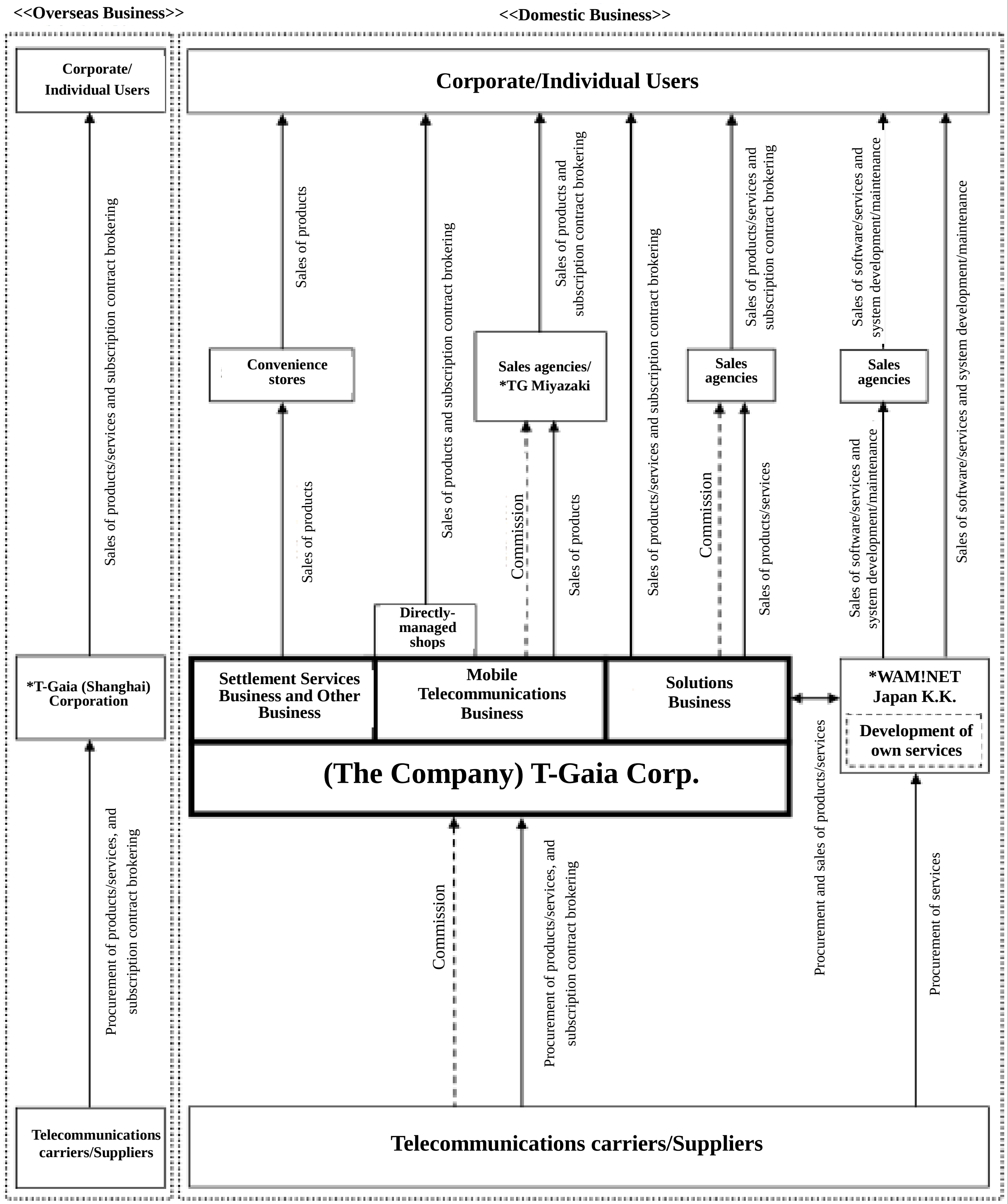
(2) Solutions Business

The main business activities of the Solutions Business are sales of mobile phones and the provision of solution services, such as terminal and line management solution services, for corporate users as well as intermediation in sales of contracts for optical communication line services such as FTTH for corporations and individuals. In addition to the telecommunications carriers at the Mobile Telecommunications Business, the Group acts as intermediary for the conclusion of telecommunication service user agreements (under agency agreements concluded with carriers such as Nippon Telegraph and Telephone East Corporation, Nippon Telegraph and Telephone West Corporation, and NTT Communications Corporation) provided by the individual carriers. Upon the conclusion of a contract, a commission is collected from that carrier as a fee for the contract intermediation.

(3) Settlement Services Business and Other Business

The main activities of the Settlement Services Business and Other Business are the sale of electronic settlement-related products that utilize the PIN sales system, such as electronic money-related merchandise and the gift card business through leading convenience stores throughout Japan.

Overview of the business system



*The Company's consolidated subsidiaries

(Note) In addition to the three consolidated subsidiaries noted in the chart above, the Group has two other consolidated subsidiaries and one equity-method affiliate.

3. Management Policies

(1) Basic management policy of the Group

This information has been omitted due to the absence of material change in the content disclosed in the Consolidated Financial Results for the Fiscal Year Ended March 31, 2014 (disclosure date May 15, 2014).
The above-mentioned consolidated financial results is available for viewing at the following website.
(T-Gaia corporate website)
http://www.t-gaia.co.jp/ir/library/note.html
(Tokyo Stock Exchange website (search page for listed companies))
http://www.jpx.co.jp/listing/co-search/index.html

(2) Performance targets

For the fiscal year ending March 31, 2017, the Group will target net sales of 616 billion yen, operating income of 15,000 million yen, ordinary income of 14,950 million yen, and net income attributable to shareholders of the parent company of 9,700 million yen.

(3) Management strategies of the Group for the medium and long term

The Company has declared it a medium-term goal until the fiscal year 2020, by attaining the following objectives based on the Company's corporate philosophy announced in April 2014, to achieve sustained growth and meet the expectations of shareholders, employees, and all other stakeholders of the Company.

- In the core business in mobile phone agency operations, hold fast to the position as a leading company
- Develop the corporate business, settlement business, and overseas business into uncontested core business operations
- Discover and develop new business opportunities in mobile and Internet operations
- Maintain a dividend payout ratio of at least 30%

Moreover, in order to realize these objectives, the Company has formulated the following company-wide strategies, which will be implemented through specific measures in day-to-day operations.

- Promote the training, advancement, application, and acquisition of human resources and maximize and optimize the success of each individual employee
- Practice strategic and sustained cost management and reform cost structures consistent with market changes
- Maximize company-level success through flexible optimization of organizations and systems

Based on these medium-term objectives and company-level common strategies, the Company will formulate sales and marketing strategies for each of the Company's business lines and unceasingly work toward realizing strategies by incorporating them into the action plans of each sales and marketing division.

(4) Issues to be addressed by the Group

In the market for mobile phone handset sales, the core business field of the Group, the trend to increasingly high-performance terminals as well as services of growing diversity and complexity continues. The Company considers it the mission of its stores to create environments and arrangements that enable customers to use products and services with confidence and peace of mind. Based on this concept, centered on Career Design Academy Co., Ltd. established in a further development of the TG Academy dedicated training institution, the Company has been upgrading store staff training beyond mere customer contact to enhanced skills in explaining products and services and advancing propositions when interacting with customers.
Moreover, providing opportunities where staff can fully demonstrate all sides of their capabilities is an indispensable requirement. In light of this, the Group is taking steps toward diversity management with the establishment of a diversity promotion team and proactively implementing the furtherance of work-life balancing, the creation of enhanced workplace environments, and the support for female employees, currently around 70% of sales staff, in promoting their careers. Specific examples include the promotion of childcare leave, the widening of regulations for shortened work hours, and the introduction of regulations for the return to the workplace. Other examples are the establishment of a target to raise the percentage of female executives to at least 10% and the furtherance of programs for the proactive advancement and training of female employees.
As stated in the foregoing, the effects from the convenience of smart phones and tablets on society are becoming more pronounced day by day. This development coincides with a growing need to appropriately address demands from customers calling for environments enabling convenient and safe usage of their devices as well as complaints and inquiries. In December 2014, this insight gave rise to the establishment of the National Association of Mobile-phone Distributors by the vendor industry. As a leading company in the mobile phone vendor industry, T-Gaia played a central part in the founding. As a core company, T-Gaia will in its activities continue to work for the appropriate diffusion of smart phones and tablets from the perspective of the customer and based on careful and easy-to-understand explanations. In so doing, T-Gaia proposes to play a part in establishing Japan as a leading ICT country in the 2020s by contributing to realizing telecommunications infrastructure at the highest global level.
The Company has identified the following issues and matters of interest at its individual operations.

In the Mobile Telecommunications Business, we believe it is important to build stores that are attractive to our customers and to raise the skills of our sales staff. To this end, measures to enhance customer satisfaction are being constantly taken such as relocations and refurbishments of carrier shops, reductions in waiting times of customers, and promotion of one-stop service propositions including optical communications line services such as FTTH. Furthermore, we will improve convenience for our customers and make the life of the smart phone customer more satisfying and fulfilling by opening more specialty shops for smart phone accessories including e-commerce.
We are also conscious of the issues of reviewing the way we operate our businesses to meet the changes in our market environment, and bringing our costs to appropriate levels through actions to improve the efficiency of our operations.
The Solutions Business provides appropriate products and services sought by corporate customers, offers implementation support for smart phones and tablets, and renders total solution services including “T-Gaia Smart Support,” which has high added-value built on the growing diversity of devices and applications.
Moreover, the trend toward diversification in the provision of FTTH and other optical telecommunications line services means an opportunity for the Company to expand sales routes and appropriately respond to diversifying new customer needs and changes in the business environment.
To this end, while expanding our services we will also strive to enhance the capabilities of our human resources and improve our capacity to generate and adopt new ideas.
In Settlement Service Business and Other Business, efforts will be stepped up to expand sales of electronic settlement services using PIN sales systems, as well as expanding sales routes and the product line-up of gift card operations, and in so doing enhance customer convenience in order to capture the growth of the market.
In overseas business, regarding the Mobile Telecommunications Business in China, we aim to offer high-quality services by leveraging the sales know-how accumulated in Japan and provide customers with total service as a local support base for Japanese-affiliated companies.
Moreover, regarding the Solutions Business in Singapore, we will work to extend the range of merchandise and launch service initiatives as bases for overseas business development centered on Southeast Asia.
The Group will continue to push ahead with its settlement services business and its overseas business focusing on Asian markets, while also aiming to further develop the Group through investments in marketable businesses and the development of our human resources.

4. Fundamental Concepts Concerning the Choice of Accounting Standards

As a policy, the Group for the time being will prepare its consolidated financial statements in accordance with Japanese accounting standards to ensure comparability between accounting periods and companies.
However, in the light of changing shareholder percentages of foreign investors and a trend toward applying international accounting standards among domestic competitors, the Company plans to initiate deliberations concerning the application of international accounting standards in future.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million yen)

	Consolidated Fiscal Year 2015 (As of March 31, 2015)	Consolidated Fiscal Year 2016 (As of March 31, 2016)
Assets		
Current assets		
Cash on hand and in banks	2,085	3,314
Accounts receivable – trade	(Note 1) 22,622	(Note 1) 19,012
Products	37,612	35,942
Stored products	71	65
Deferred tax assets	1,354	1,337
Accounts receivable – other	(Note 1) 10,621	(Note 1) 11,438
Other current assets	675	1,169
Allowance for doubtful accounts	(13)	(4)
Total current assets	75,029	72,276
Fixed assets		
Fixed tangible assets		
Buildings and structures	6,710	7,070
Accumulated depreciation	(Note 2) (4,721)	(Note 2) (5,141)
Buildings and structures (Net)	1,989	1,928
Transport vehicles and equipments	18	15
Accumulated depreciation	(Note 2) (16)	(Note 2) (13)
Transport vehicles and equipments (Net)	1	1
Furniture and fixtures	4,251	4,313
Accumulated depreciation	(Note 2) (3,468)	(Note 2) (3,405)
Furniture and fixtures (Net)	782	908
Land	353	353
Construction in progress	22	20
Total tangible fixed assets	3,148	3,212
Non-tangible fixed assets		
Goodwill	3,701	2,501
Telephone rights	16	16
Land leasehold	26	26
Software	819	1,108
Software suspension account	462	15
Others	0	1
Total non-tangible fixed assets	5,027	3,678
Investment and other assets		
Investment securities	451	(Note 3) 603
Deferred tax assets	1,607	1,563
Leasehold deposits	4,313	4,111
Others	506	488
Allowance for doubtful accounts	(5)	(5)
Total investments and other assets	6,874	6,762
Total fixed assets	15,051	13,653
Total assets	90,080	85,930

(Million yen)

	Consolidated Fiscal Year 2015 (As of March 31, 2015)	Consolidated Fiscal Year 2016 (As of March 31, 2016)
Liabilities		
Current liabilities		
Accounts payable – trade	(Note 1) 10,305	(Note 1) 7,803
Short-term borrowings	14,408	1,002
Long-term borrowings payable within one year	13,768	8,128
Accounts payable – other	(Note 1) 10,313	(Note 1) 10,523
Unpaid taxes	3,133	3,116
Reserve of bonuses	1,678	1,696
Allowance for early subscription cancellations	172	179
Other current liabilities	465	505
Total current liabilities	54,243	32,955
Long-term liabilities		
Long-term borrowings	4,375	14,747
Liabilities relating to retirement benefits	400	384
Asset retirement obligations	1,234	1,308
Others	540	515
Total long-term liabilities	6,550	16,956
Total liabilities	60,794	49,911
Net Assets		
Shareholders’ equity		
Common stock	3,154	3,154
Capital surplus	5,640	5,640
Retained earnings	28,820	35,534
Treasury stock	(8,755)	(8,755)
Total shareholders’ equity	28,860	35,573
Accumulated other comprehensive income		
Net unrealized holding gain on securities	93	110
Foreign currency translation adjustment	150	133
Total accumulated other comprehensive income	244	243
Non-controlling shareholder interest	181	201
Total net assets	29,286	36,018
Total Liabilities and Net Assets	90,080	85,930

(2) Consolidated Statements of Income and Consolidated Statement of Comprehensive Income
(Consolidated Statements of Income)

(Million yen)

	Consolidated Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)	Consolidated Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)
Net Sales	642,095	620,074
Cost of Goods Sold	580,111	556,693
Total Income from Sales	61,984	63,381
Selling, General and Administrative Expenses	(Note 1) 47,677	(Note 1) 47,714
Operating Income	14,306	15,666
Non-Operating Income		
Interest income	3	1
Dividend income	3	3
Income from damage compensation	30	2
Insurance reimbursement	21	28
Others	34	64
Total non-operating income	94	101
Non-Operating Expenses		
Interest expenses	169	127
Others	36	19
Total non-operating expenses	205	146
Ordinary Income	14,194	15,621
Extraordinary Gains		
Gain on sales of fixed assets	(Note 2) 0	(Note 2) 4
Gain on sale of golf club membership rights	6	—
Total extraordinary gains	6	4
Extraordinary Losses		
Loss on sales of fixed assets	—	(Note 3) 0
Loss on removal of fixed assets	(Note 4) 87	(Note 4) 39
Impairment losses	(Note 5) 63	(Note 5) 61
Golf club membership valuation loss	—	5
Loss on revaluation of investments in securities	199	184
Total extraordinary losses	351	289
Income before Taxes	13,850	15,336
Income Taxes – Current	6,095	5,714
Income Taxes – Deferred	(55)	56
Total Income Taxes	6,040	5,771
Net Income	7,810	9,564
Net Income Attributable to Non-controlling Shareholders	62	65
Net Income Attributable to Shareholders of the Parent Company	7,748	9,498

(Consolidated Statement of Comprehensive Income)

(Million yen)

	Consolidated Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)	Consolidated Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)
Net Income	7,810	9,564
Other Comprehensive Income		
Net unrealized holding gain on securities	36	16
Foreign currency translation adjustment	77	(17)
Total other comprehensive income	(Note) 114	(Note) (0)
Comprehensive Income	7,924	9,564
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	7,862	9,498
Comprehensive income attributable to non-controlling shareholders	62	65

(3) Consolidated Statements of Changes in Shareholders' Equity

Consolidated Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)

(Million yen)

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury Stock	Total shareholders' equity
Balance at beginning of current year	3,127	5,613	23,478	(8,755)	23,464
Changes during the year					
New issue of stock	26	26			53
Dividend of surplus			(2,405)		(2,405)
Net income attributable to shareholders of the parent company			7,748		7,748
Changes of items other than shareholders' equity during the year (Net)					
Total changes during the year	26	26	5,342	—	5,395
Balance at end of the year	3,154	5,640	28,820	(8,755)	28,860

	Accumulated Other Comprehensive Income			Equity of non-controlling shareholders	Total Net Assets
	Net unrealized holding gain on securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current year	57	73	130	119	23,713
Changes during the year					
New issue of stock					53
Dividend of surplus					(2,405)
Net income attributable to shareholders of the parent company					7,748
Changes of items other than shareholders' equity during the year (Net)	36	77	114	62	176
Total changes during the year	36	77	114	62	5,572
Balance at end of the year	93	150	244	181	29,286

Consolidated Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)

(Million yen)

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury Stock	Total shareholders' equity
Balance at beginning of current year	3,154	5,640	28,820	(8,755)	28,860
Changes during the year					
Dividend of surplus			(2,785)		(2,785)
Net income attributable to shareholders of the parent company			9,498		9,498
Change of scope of consolidation					
Acquisition of treasury stock				(0)	(0)
Changes of items other than shareholders' equity during the year (Net)					
Total changes during the year	—	—	6,713	(0)	6,713
Balance at end of the year	3,154	5,640	35,534	(8,755)	35,573

	Accumulated Other Comprehensive Income			Equity of non-controlling shareholders	Total Net Assets
	Net unrealized holding gain on securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current year	93	150	244	188	29,286
Changes during the year					
Dividend of surplus					(2,785)
Net income attributable to shareholders of the parent company					9,498
Change of scope of consolidation				16	16
Acquisition of treasury stock					(0)
Changes of items other than shareholders' equity during the year (Net)	16	(17)	(0)	3	3
Total changes during the year	16	(17)	(0)	19	6,732
Balance at end of the year	110	133	243	201	36,018

(4) Consolidated Statements of Cash Flows

(Million yen)

	Consolidated Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)	Consolidated Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)
Cash Flows from Operating Activities		
Income before income taxes and other adjustments	13,850	15,336
Depreciation	1,502	1,524
Impairment losses	63	61
Amortization of goodwill	1,719	1,191
Increase (decrease) in allowance for doubtful accounts	(6)	(8)
Increase (decrease) in reserve for employees' bonuses	250	18
Increase (decrease) in allowance for early subscription cancellations	(46)	7
Increase (decrease) in liabilities relating to retirement benefits	10	(16)
Interest and dividend income	(7)	(5)
Interest expenses	169	127
Loss (gain) on sales of fixed assets	(0)	(4)
Loss on removal of fixed assets	87	39
Loss (gain) on valuation of investment securities	199	184
Golf club membership valuation loss	—	4
Loss (gain) on sale of golf club membership rights	(6)	—
Decrease (increase) in accounts receivable	3,493	3,604
Decrease (increase) in accounts receivable – other	596	(817)
Decrease (increase) in inventories	7,589	1,674
Increase (decrease) in accounts payable	(2,012)	(2,499)
Change in other accounts payable	835	407
Others	100	(239)
Subtotal	28,392	20,589
Interests and dividends received	7	5
Interests paid	(176)	(131)
Income taxes paid	(6,326)	(5,834)
Net cash provided by operating activities	21,896	14,628
Cash Flows from Investing Activities		
Payment for purchase of property, plant and equipment	(985)	(1,221)
Proceeds from sales of property, plant and equipment	0	5
Payment for purchase of software	(192)	(500)
Payment for purchase of investment securities	(200)	(308)
Payment for loans receivable	(3)	(5)
Proceeds from collection of loans receivable	4	5
Payment for leasehold deposits	(260)	(152)
Proceeds from return of leasehold deposits	239	355
Expenditure for the acquisition of business operations	(696)	—
Proceeds from the sale of golf club membership rights	15	—
Others	(532)	(60)
Net cash used in investing activities	(2,610)	(1,882)
Cash Flows from Financing Activities		
Increase (decrease) in short term loans payable	(14,158)	(13,405)
Proceeds from long-term borrowings	10,500	18,500
Decrease in long-term borrowings	(14,725)	(13,768)
Proceeds from a share issue	53	—
Income from capital paid in by non-controlling shareholders	—	16
Cash dividends paid	(2,408)	(2,786)
Dividends paid to non-controlling shareholders	—	(62)
Payments for purchase of treasury stock	—	(0)
Net cash used in financing activities	(20,738)	(11,505)
Effect of exchange rate changes on Cash and Cash Equivalents	47	(12)
Increase (Decrease) in Cash and Cash Equivalents	(1,404)	1,228
Cash and Cash Equivalents at Beginning of Period	3,490	2,085
Cash and Cash Equivalents at End of Period	(Note) 2,085	(Note) 3,314

(5) Notes to Consolidated Financial Statements

(Note Regarding the Premise of a Going Concern)

There are no items to report.

(Significant Accounting Policies in the Preparation of Consolidated Financial Statements)

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 5

Name of primary consolidated subsidiaries: TG Miyazaki Co. Ltd.
T-Gaia (Shanghai) Corporation
WAM!NET Japan K.K.

The scope of consolidation includes Career Design Academy Co., Ltd. newly established in the term under review.

(2) Company name, etc., of primary non-consolidated subsidiaries

There are no non-consolidated subsidiaries to report.

2. Application of Equity Method

Number of companies accounted for under the equity method: 1
Company name: SRJ Co., Ltd.

Following the acquisition of share capital by the Company in the term under review, SRJ Co., Ltd. corresponds to an affiliated company and is included in the scope of equity-method affiliates.

3. Accounting Period of Consolidated Subsidiaries

Consolidated subsidiaries include foreign entities with account settlement date on December 31. In the preparation of the consolidated financial statements, the financial statements as of that account settlement date are used. However, important transactions that arise in the interim until the consolidated account settlement date are subject to adjustments necessary for the purposes of the consolidation.

4. Significant Accounting Policies

(1) Assets valuation basis and valuation method

1) Securities

Other securities

Securities with market quotations:

Securities with market quotations are carried at fair value on the balance sheet date. Changes in unrealized holding gain or loss are included directly in net assets. The cost of securities sold is determined by the moving-average method.

Securities without market quotations:

Securities without market quotations are stated at cost, cost being determined by the moving-average method.

2) Inventories

(a) Merchandise

Merchandise is stated at cost, cost being determined by the first-in first-out method (balance sheet value being calculated by reducing book value, based on the decline in profitability).

(b) Supplies

Supplies are stated at cost, cost being determined by the first-in first out method.

(2) Depreciation and amortization method of principal depreciable assets

1) Property, plant and equipment (excluding lease assets)

Property, plant, and equipment are depreciated according to the straight line method and the declining balance method. Buildings, accompanying structures, and furniture and fixtures of directly-managed shops are depreciated using the straight line method over a useful life of 3 years.

Useful life of principle assets is as follows:

Buildings and structures: 2-34 years
Furniture and fixtures: 2-15 years

2) Intangible fixed assets (excluding lease assets)

Calculated by the straight-line method.

Goodwill: 10 years
Software: 5 years

(3) Recognition of significant allowances

1) Allowance for doubtful accounts

To prepare for credit losses on accounts receivable and loans receivable etc., allowances equal to the estimated amount of uncollectible receivables are provided for general receivables based on the historical write-off ratio, and bad receivables based on case-by-case determination of collectability.

2) Reserves for employees' bonuses

To provide for employees' bonus obligations, the Company designates in the reserve account an amount estimated to have accrued for the current fiscal year.

3) Allowance for early subscription cancellations

The Company books an allowance for early subscription cancellations based on historical figures, as the Company must return commissions back to telecom carriers (with which the Company has concluded sales agency agreements) when mobile phone users that have subscribed through the Group or network of sales agencies cancel their subscriptions within a short period of time.

(4) Accounting policy for retirement benefits

For calculations of liabilities relating to retirement benefits and retirement benefit expenditures, the Company applies a simplified method whereby an amount required for voluntary resignations at the end of the term relating to retirement benefits is treated as retirement benefit liabilities.

(5) Standards for the yen conversion of material foreign denominated assets and liabilities

Assets and liabilities and income and expenditure of foreign subsidiaries are converted into yen at the foreign exchange spot rates prevailing on the balance sheet date. Conversion differences are stated in net assets on the currency translation adjustment account.

(6) Method and period of Amortization for Goodwill

Goodwill is amortized under the straight-line method over the period of occurrence.

(7) Scope of cash and cash equivalents on statements of cash flows

Cash and cash equivalents consists of vault cash, deposits that can be withdrawn on demand, and short-term investments, with original maturities of 3 months or less, that are readily convertible known amounts of cash and present insignificant risk of change in value.

(8) Other significant accounting policies in the preparation of consolidated financial statements

Accounting for consumption taxes

The tax exclusion method is applied to consumption taxes and local consumption taxes. Non-deductible national and local consumption taxes in the period under review have been taken to expenses.

(Changes in Accounting Policies)

(Applications of the Accounting Standard for Business Combinations)

Beginning with the period under review, the Company applies the "Accounting Standard for Business Combinations" (Business Accounting Standard No. 21; September 13, 2013; in the following, "Accounting Standard for Business Combinations"); the "Accounting Standard for Consolidated Financial Statements" (Business Accounting Standard No. 22; September 13, 2013; in the following, "Accounting Standard for Consolidated Financial Statements"; and the "Accounting Standard for Business Divestitures, etc." (Business Accounting Standard No. 7; in the following, "Accounting Standard for Business Divestitures, etc."), 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 consolidated financial statements whose term includes the date of the business combination. Additionally, the Company has changed the presentation of net income for the period, etc., and has changed the method of presentation from minority interest to non-controlling shareholder interest. In order to reflect the said changes in the method of presentation, reclassifications were made on the consolidated financial statements for the year-earlier period.

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, etc. No. 57 - 4 (4), and will continue the application thereof in future beginning with the start of the period under review.

No effects to the Company's consolidated financial statements arise from these accounting changes.

(Consolidated Balance Sheets)

*1) Presentation of set-off of accounts receivable - trade and accounts payable - trade

Out of financial assets and liabilities, those accounts payable and accounts receivable that are fully compliant with the requirements that they must concern the same counterparty, that the set-off is legally effective and that the Company has the ability to set-off, and that the Company is willing to settle by set-off, are presented on the consolidated balance sheets as balances after set-off.

Amounts at the end of the fiscal year under review prior to set-off were as follows: "Accounts receivable - trade" 68,243 million yen, "Account receivable - other" 34,864 million yen, "Account payable - trade" 56,445 million yen, and "Accounts payable - other" 34,538 million yen. Amounts at the end of the previous fiscal year prior to set-off were as follows: "Accounts receivable - trade" 83,593 million yen, "Account receivable - other" 32,839 million yen; "Account payable - trade" 69,605 million yen, and "Accounts payable - other" 34,202 million yen.

*2) Figure of accumulated depreciation includes accumulated impairment losses.

*3) The following items concern affiliated companies.

	Consolidated Fiscal Year 2015 (As of March 31, 2015)	Consolidated Fiscal Year 2016 (As of March 31, 2016)
Investment securities (stock)	—	315 million yen

4) The Group has current account overdraft agreements with three banks in order to raise funds efficiently. Loans outstanding as of the end of fiscal year under these agreements are as follows:

	Consolidated Fiscal Year 2015 (As of March 31, 2015)	Consolidated Fiscal Year 2016 (As of March 31, 2016)
Current account overdraft	1,500 million yen	1,500 million yen
Credit used	—	—
Credit available	1,500 million yen	1,500 million yen

5) Contingent Liabilities

On August 3, 2012, InComm Japan KK (main offices: Shinjuku-ku, Tokyo; president and representative director: Takuma Arai; in the following "InComm Japan"), a supplier of merchandise for the gift card business of the Company, petitioned the Tokyo District Court to grant temporary injunctions against the Company (the "Petition"). On June 12, 2013, the Tokyo District Court granted temporary injunctions ordering the Company to suspend the sales of and to recall specified merchandise of the Company (the "Injunction").

While taking action in accordance with the Injunction, the Company filed opposition with the Tokyo District Court asking for the Injunction to be removed. On March 4, 2014, the Court acknowledged in part the claims of the Company and decided for the Injunction to be in part removed. The Company and InComm Japan respectively filed petitions for relief with the Tokyo High Court on grounds that the decision of the Tokyo District Court was made in error. However, on September 4, 2015 the Tokyo High Court passed judgment upholding the decision of the Tokyo District Court in respect of which opposition had been filed. Against this ruling, InComm Japan filed a special appeal with the Supreme Court. However, the filing was rejected by the Supreme Court on March 23, 2016. As a result, the Injunction imposed by the Tokyo District Court became final, bringing the Injunction proceedings to an end.

Moreover, InComm Japan has simultaneously with filing petition for the Injunction initiated court action against the Company at the Tokyo District Court seeking to prohibit the sales and demanding the return of specified merchandise as well as claiming indemnification for damages (claimed indemnification amount: 658 million yen) and has since been advancing the litigation proceedings. The Company has requested for the claims of InComm Japan to be dismissed and will continue to take action to have its assertions recognized.

(Consolidated Statements of Income)

*1) Major items and figures among Selling, General and Administrative Expenses are as follows.

	Consolidated Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)	Consolidated Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)
Directors remuneration	205 million yen	207 million yen
Employees' wages	8,176 million yen	8,708 million yen
Temporary staff wages	8,772 million yen	9,118 million yen
Provision of reserves for employees' bonuses	1,660 million yen	1,677 million yen
Dispatched staff wages	4,576 million yen	3,618 million yen
Transportation	373 million yen	324 million yen
Other selling amount	4,152 million yen	4,512 million yen
Rent expenses	4,469 million yen	4,464 million yen
Depreciation expenses	1,371 million yen	1,392 million yen
Amortization of goodwill	1,719 million yen	1,191 million yen
Outsourcing expenses	822 million yen	691 million yen
Others	11,378 million yen	11,807 million yen

*2) Breakdown of gain on sales of fixed assets is as follows.

	Consolidated Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)	Consolidated Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)
Buildings and structures	0 million yen	3 million yen
Motor vehicles and transport equipment	0 million yen	0 million yen
Furniture and fixtures	0 million yen	0 million yen
Total	0 million yen	4 million yen

*3) Breakdown of loss on sales of fixed assets is as follows.

	Consolidated Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)	Consolidated Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)
Furniture and fixtures	—	0 million yen
Total	—	0 million yen

*4) Breakdown of loss on removal of fixed assets is as follows.

	Consolidated Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)	Consolidated Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)
Buildings and structures	77 million yen	30 million yen
Furniture and fixtures	9 million yen	7 million yen
Software	0 million yen	0 million yen
Total	87 million yen	39 million yen

*5) Impairment losses

The Group groups its stores as minimum cash-generating units, and common assets at the branch offices and store level.
Directly-managed stores, branches, and operating sites that continuously generate negative operating cash flows are reviewed for necessary asset impairment recognition and have their book values written down to recoverable amounts. Corresponding write-down amounts are recognized on accounts as impairment losses.
The Company calculated recoverable amounts for stores and branch office assets based on estimated net sales proceeds, which are nil because we believe it will be difficult to sell these assets.
The Group recognized impairment losses on the following group of assets

Consolidated Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)

Location	Usage	Assets
Stores	Store equipment for directly-managed shops	Buildings and structures, Furniture and fixtures

Impairment losses of 63 million yen (47 million yen on buildings and structures and 15 million yen on furniture and fixtures) were recognized in extraordinary losses.

Consolidated Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)

Location	Usage	Assets
Stores	Store equipment for directly-managed shops	Buildings and structures, Furniture and fixtures

Impairment losses of 61 million yen (52 million yen on buildings and structures and 8 million yen on furniture and fixtures) were recognized in extraordinary losses.

(Consolidated Statements of Comprehensive Income)

*Other comprehensive income related reclassification adjustments and their tax effect

	Consolidated Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)	Consolidated Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)
Net unrealized holding gain on securities:		
Generated during the fiscal year under review	(150 million yen)	(164 million yen)
Reclassification adjustment	199 million yen	184 million yen
Before tax adjustments	49 million yen	20 million yen
Tax effect	(12 million yen)	(3 million yen)
Net unrealized holding gain on securities	36 million yen	16 million yen
Foreign currency translation adjustment:		
Generated during the fiscal year under review	77 million yen	(17 million yen)
Reclassification adjustment	—	—
Before tax adjustments	77 million yen	(17 million yen)
Tax effect	—	—
Foreign currency translation adjustment	77 million yen	(17 million yen)
Total of other comprehensive income	114 million yen	(0 million yen)

(Consolidated Statements of Changes in Shareholders' Equity)

Consolidated Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)

1. Type and number of outstanding shares and treasury stock

	Number of shares as of April 1, 2014 (shares)	Increase during consolidated period under review (shares)	Decrease during consolidated period under review (shares)	Number of shares as of March 31, 2015 (shares)
Outstanding shares				
Common shares (Note)	79,005,600	68,400	—	79,074,000
Total	79,005,600	68,400	—	79,074,000
Treasury stock				
Common shares	10,300,336	—	—	10,300,336
Total	10,300,336	—	—	10,330,336

Note: An increase of 68,400 shares in the total number of shares issued resulted from the exercise of stock warrants (stock options).

2. Dividends

(1) Dividend payment

(Resolution)	Type of share	Total amount of dividend (million yen)	Dividend per share (yen)	Record date	Effective date
Annual general meeting of shareholders on June 19, 2014	Common shares	1,202	17.50	March 31, 2014	June 20, 2014
Board of Directors meeting on November 11, 2014	Common shares	1,203	17.50	September 30, 2014	December 9, 2014

(2) Dividends with a record date in the consolidated fiscal year under review but an effective date in the following consolidated fiscal year

(Resolution)	Type of share	Total amount of dividend (million yen)	Source of funds	Dividend per share (yen)	Record date	Effective date
Annual general meeting of shareholders on June 19, 2015	Common shares	1,375	Retained earnings	20.00	March 31, 2015	June 22, 2015

Consolidated Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)

1. Type and number of outstanding shares and treasury stock

	Number of shares as of April 1, 2015 (shares)	Increase during consolidated period under review (shares)	Decrease during consolidated period under review (shares)	Number of shares as of March 31, 2016 (shares)
Outstanding shares				
Common shares	79,074,000	—	—	79,074,000
Total	79,074,000	—	—	79,074,000
Treasury stock				
Common shares (Note)	10,300,336	21	—	10,300,357
Total	10,300,336	21	—	10,330,357

Note: An increase of 21 shares in the number of treasury stock resulted from the buy-back of odd-lot shares.

2. Dividends

(1) Dividend payment

(Resolution)	Type of share	Total amount of dividend (million yen)	Dividend per share (yen)	Record date	Effective date
Annual general meeting of shareholders on June 19, 2015	Common shares	1,375	20.00	March 31, 2015	June 22, 2015
Board of Directors meeting on November 12, 2015	Common shares	1,409	20.50	September 30, 2015	December 8, 2015

(2) Dividends with a record date in the consolidated fiscal year under review but an effective date in the following consolidated fiscal year

(Resolution)	Type of share	Total amount of dividend (million yen)	Source of funds	Dividend per share (yen)	Record date	Effective date
Annual general meeting of shareholders on June 22, 2016	Common shares	1,547	Retained earnings	22.50	March 31, 2016	June 23, 2016

(Consolidated Cash Flow Statements)

* Reconciliation of cash and cash equivalents of the statements of cash flows and account balances of balance sheets for the current fiscal year is made as follows:

	Consolidated Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)	Consolidated Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)
Cash on hand and in banks	2,085 million yen	3,314 million yen
Cash and cash equivalents	2,085 million yen	3,314 million yen

(Segment Information)

Segment information

1. Summary of reportable segments

Reportable segments of the Group are structural units of the Company for which segregated financial information is available and which are periodically reviewed to enable directors to take decisions on the allocation of management resources and assess operating performance.
The Group forms three reportable segments — Mobile Telecommunications Business, the Solutions Business, and the Settlement Services Business and Other Business — structured by industry segment.
The Mobile Telecommunications Business undertakes contract mediation for mobile phones and other telecommunications services and sells mobile phone handsets and related merchandise. The Solutions Business engages in sales of mobile phone handsets and other products to corporate customers, and contract mediation for fixed-line services such as FTTH to both corporations and individuals. The Settlement Services Business and Other Business engages in the distribution of electronic settlement-related products such as electronic money that utilize PIN sales systems via major convenience store operators throughout Japan, the gift card business, and overseas business.

2. Method of computation of net sales, income or loss, assets, liabilities, and other items by reportable segments

The accounting treatment applicable to reported business segment information is largely consistent with the descriptions in the "Significant Accounting Policies in the Preparation of Consolidated Financial Statements," and income of each reportable segment indicates operating income of the segment.

3. Information by reportable segment on sales and income or loss amounts, assets, liabilities, and other items

Consolidated Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)

(Million yen)

	Mobile Telecommunications Business	Solutions Business	Settlement Services Business and Other Business	Adjustment amounts (Note 1)	Amount recorded in the consolidated financial statements
Net sales	533,593	26,263	82,238	—	642,095
Segment income (Operating income)	11,123	2,498	684	—	14,306
Segment assets	36,839	1,428	3,046	48,766	90,080
Other Items					
Depreciation (Note 2)	1,231	60	79	—	1,371
Amortization of goodwill	1,618	101	—	—	1,719

Note 1: The 48,766 million yen adjustment amount to segment assets includes assets which are not allocated to each reported segment other than merchandise and goodwill.
2: Fixed tangible assets and non-tangible fixed assets (excluding goodwill) are not allocated to each reported segment. However, depreciation and amortization are allocated based on the segment weightings of divisions accounted for under management accounting.

Consolidated Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)

(Million yen)

	Mobile Telecommunications Business	Solutions Business	Settlement Services Business and Other Business	Adjustment amounts (Note 1)	Amount recorded in the consolidated financial statements
Net sales	521,221	25,618	73,234	—	620,074
Segment income (Operating income)	11,718	2,357	1,591	—	15,666
Segment assets	34,449	1,157	2,846	47,477	85,930
Other Items					
Depreciation (Note 2)	1,243	94	53	—	1,392
Amortization of goodwill	1,090	101	—	—	1,191

Note 1: The 47,477 million yen adjustment amount to segment assets includes assets which are not allocated to each reported segment other than merchandise and goodwill.
2: Fixed tangible assets and non-tangible fixed assets (excluding goodwill) are not allocated to each reported segment. However, depreciation and amortization are allocated based on the segment weightings of divisions accounted for under management accounting.

Related information

Consolidated Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)

1. Information by products and services

(Million yen)

	Mobile Telecommunications Business	Solutions Business	Settlement Services Business and Other Business	Total
Net sales for outside customers	533,593	26,263	82,238	642,095

2. Information by region

(1) Net Sales

Omitted as the Company's net sales for external customers in Japan exceed 90% of net sales listed in the Consolidated Statements of Income.

(2) Fixed tangible assets

Omitted as the amount of fixed tangible assets in Japan exceed the amount of fixed tangible assets listed in the Consolidated Balance Sheets.

3. Information by major clients (mobile carriers)

(Million yen)

Name of clients (mobile carriers)	Net sales	Related segment
KDDI Corporation	95,624	Mobile Telecommunications Business, Solutions Business
NTT DOCOMO, Inc.	66,981	Mobile Telecommunications Business, Solutions Business

Consolidated Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)

1. Information by products and services

(Million yen)

	Mobile Telecommunications Business	Solutions Business	Settlement Services Business and Other Business	Total
Net sales for outside customers	521,221	25,618	73,234	620,074

2. Information by region

(1) Net Sales

Omitted as the Company's net sales for external customers in Japan exceed 90% of net sales listed in the Consolidated Statements of Income.

(2) Fixed tangible assets

Omitted as the amount of fixed tangible assets in Japan exceed the amount of fixed tangible assets listed in the Consolidated Balance Sheets.

3. Information by major clients (mobile carriers)

(Million yen)

Name of clients (mobile carriers)	Net sales	Related segment
KDDI Corporation	97,168	Mobile Telecommunications Business, Solutions Business
NTT DOCOMO, Inc.	59,472	Mobile Telecommunications Business, Solutions Business

Information by reportable segment on impairment losses on fixed asset

Consolidated Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)

(Million yen)

	Mobile Telecommunications Business	Solution Business	Settlement Services Business and Other Business	Total
Impairment losses	63	—	—	63

(Note) Fixed tangible assets and non-tangible fixed assets (excluding goodwill) are not allocated to each reported segment. However, impairment losses are allocated to the Mobile Telecommunications Business since the losses are due to store equipment for directly-managed shops.

Consolidated Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)

(Million yen)

	Mobile Telecommunications Business	Solution Business	Settlement Services Business and Other Business	Total
Impairment losses	61	—	—	61

(Note) Fixed tangible assets and non-tangible fixed assets (excluding goodwill) are not allocated to each reported segment. However, impairment losses are allocated to the Mobile Telecommunications Business since the losses are due to store equipment for directly-managed shops.

Information concerning the amortized and non-amortized goodwill amounts by reported segment

Consolidated Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)

(Million yen)

	Mobile Telecommunications Business	Solution Business	Settlement Services Business and Other Business	Total
Amount amortized in the term under review	1,618	101	—	1,719
Balance at the end of the term under review	2,791	910	—	3,701

Consolidated Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)

(Million yen)

	Mobile Telecommunications Business	Solution Business	Settlement Services Business and Other Business	Total
Amount amortized in the term under review	1,090	101	—	1,191
Balance at the end of the term under review	1,700	809	—	2,510

Information concerning gains from negative goodwill by reported segment

Not applicable.

(Per Share Information)

(Yen)

	Consolidated Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)	Consolidated Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)
Net assets per share	423.19	520.80
Amount of net income per share	112.68	138.11

Note 1: Information on diluted earnings per share has been omitted as no dilutive shares are in existence.

2: The basis of calculation of net income per share is shown below.

	Consolidated Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)	Consolidated Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)
Net income attributable to shareholders of the parent company (million yen)	7,748	9,498
Net income not available to common shareholders (million yen)	—	—
Net income attributable to common shareholders of the parent company (million yen)	7,748	9,498
Average number of shares during the term (shares)	68,760,534	68,773,649

(**Subsequent Events)**

(Acquisition of Own Stock)

At the board of directors meeting of the Company convened on February 22, 2016, it was resolved based on the stipulations of art. 156 of the Companies Act (applied mutatis mutandis pursuant to art. 165 (3) of the Companies Act) and the articles of incorporation to issue a tender offer for own stock of the Company (the "Tender Offer"). The acquisition of stock was thereupon executed.

（1）Acquisition of own stock and purpose of the Tender Offer

The Company was notified by its major shareholder Mitsubishi Corporation of its intent to divest the entire 13,045,400 shares held in the Company. Taking into account effects on liquidity and market price of the shares of the Company, deliberations were held on the possibility of an acquisition by third parties with a view to strengthening relations with trading partners of the Company, or acquisition by the Company as treasury stock.

As a result of these deliberations, a decision was made for the Company to acquire the shares as treasury stock. This decision was based on expectations of contributions to higher capital efficiency while supporting the sustained soundness and stability of business operations and finances in the future. A third-party acquisition was rendered impracticable by the timing desired by Mitsubishi Corporation for its divestiture.

（2）Content of the resolution of the board of director's meeting for the acquisition of own stock

(i)	Class of shares of stock to be acquired:	Common shares
(ii)	Total number of shares to be acquired:	13,100,100 (max.)
(iii)	Acquisition period:	From February 23, 2016 until April 28, 2016
(iv)	Total acquisition price:	12,824 million yen (max.)

（3）Content of the Tender Offer, etc.

(i)	Period of the Tender Offer:	From February 23, 2016 until March 22, 2016 (20 business days)
(ii)	Tender offer start date:	February 23, 2016
(iii)	Tender offer price:	979 yen per share

(iv) Basis of calculation of the tender offer price:

The tender offer price was determined by the board of directors' meeting of the Company to be 979 yen based on the average of share price averages for specific periods (with respect to the closing price of the share on February 19, 2016, marking the business day directly preceding the day of the resolution of the board of directors' meeting on February 22, 2016, for the implementation of the Tender Offer, the closing price simple-average of 1,231 yen for the 1-month period until the said date, the closing price simple-average of 1,332 yen for the 3-month period until the said date, the closing price simple-average of 1,579 yen for the 6-month period until the said date, and the closing price simple-average of 1,693 yen for the 12-month period until the said date) with discounts respectively applied.

(i)	Number of shares scheduled to be purchased:	13,100,000
(ii)	Settlement start date:	April 13, 2016
(iii)	Procurement of acquisition funds:	Bank loans

（4）Result of the Tender Offer

As of April 13, 2016, the Company had acquired 13,045,400 common shares (12,771 million yen) from Mitsubishi Corporation. As a result, Mitsubishi Corporation as of this date ceased to be a major shareholder.

6. Others

Transfers of directors

In regard to changes in directors, please refer to the “Announcement Regarding Appointment of Directors and Changes in Organization” released on February 29, 2016 should be referenced.