Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2017 [Japanese GAAP]

April 28, 2017

Company name: CONEXIO Corporation
Stock exchange listing: Tokyo Stock Exchange, First Section
Stock code: 9422
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Briefing session on annual results: Scheduled (for institutional investors and analysts)

(Figures are rounded down to the nearest million yen.)

1. Financial Results for the Fiscal Year Ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

(1) Non-consolidated Operating Results (Cumulative)

(% are shown as year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	million yen	%	million yen	%	million yen	%	million yen	%
March 31, 2017	260,016	(7.6)	9,978	8.4	10,046	8.1	6,469	5.2
March 31, 2016	281,307	(0.6)	9,203	7.1	9,294	7.0	6,149	22.6

	Earnings per share	Diluted earnings per share	ROE	ROA	Operating profit to net sales ratio
Fiscal year ended	yen	yen	%	%	%
March 31, 2017	144.60	—	20.3	10.5	3.8
March 31, 2016	137.45	—	22.1	9.3	3.3

(Reference) Equity in earnings of affiliates: March 31, 2017: －million yen March 31, 2016: － million yen

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	million yen	million yen	%	yen
March 31, 2017	95,254	34,016	35.7	760.35
March 31, 2016	96,912	29,850	30.8	667.23

(Reference) Equity: March 31, 2017: 34,016 million yen March 31, 2016: 29,850 million yen

(3)Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the year
Fiscal year ended	million yen	million yen	million yen	million yen
March 31, 2017	8,635	(1,904)	(4,805)	5,013
March 31, 2016	8,392	(1,811)	(7,490)	3,088

2. Dividends

	Annual dividends					Total amount of dividends	Payout ratio	Dividend on equity
	1Q end	2Q end	3Q end	Year end	Total			
Fiscal year ended	yen	yen	yen	yen	yen	million yen	%	%
March 31, 2016	—	22.50	—	25.50	48.00	2,147	34.9	7.7
March 31, 2017	—	26.00	—	30.00	56.00	2,505	38.7	7.8
Fiscal Year ending March 31, 2018(Forecast)	—	30.00	—	35.00	65.00		44.7	

3. Financial Forecast for Fiscal Year Ending March 31, 2018 (from April 1, 2017 to March 31, 2018)

(% are shown as year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit		Earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	252,500	(2.9)	10,000	0.2	10,100	0.5	6,500	0.5	145.29

Note: Financial Forecasts for the First-half year have not been disclosed.

Notes

(1) Changes in accounting policies, changes in accounting estimates and restatements

(i)	Changes in accounting policies due to revision of accounting standards, etc.:	None
(ii)	Changes in accounting policies other than (i) above:	None
(iii)	Changes in accounting estimates:	None
(iv)	Restatements:	None

(2) Number of shares issued (common stock)

(i) Number of shares issued as of the end of period (including treasury stock)	FY2016	55,923,000 shares	FY2015	55,923,000 shares
(ii) Number of shares of treasury stock as of the end of period	FY2016	11,185,062 shares	FY2015	11,185,062 shares
(iii) Average number of shares during the period (cumulative)	FY2016	44,737,938 shares	FY2015	44,737,991 shares

*** This Financial Results is not subject to audit procedures.**

*** Explanation of appropriate use of financial forecasts and other special notes**

- Financial forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as at the time of preparing this report. The Company does not guarantee that any forecasts would be met. Actual results may vary significantly from the forecasts due to a wide range of factors.

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1. Overview of operating results, etc.

(1) Overview of operating results for the fiscal year ended March 31, 2017

(i) Operating results for the fiscal year ended March 31, 2017

During the fiscal year ended March 31, 2017, the Japanese economy was on a moderate recovery trend with improvements in the corporate earnings as well as employment and income environments. On the other hand, its outlook remained unclear as uncertainty increased in the overseas economies.

In the mobile phone market in which the Company conducts business activities, since the issuance of new guidelines by the Ministry of Internal Affairs and Communications to rectify excessive discounts on smartphone purchases in March 2016, the Company has faced significant changes in sales of handsets including the rise in effective purchase price of handsets as price competition has subsided. In addition, consumer protection rules were enhanced to require higher-quality customer services including the enhancement of explanation and the delivery of contractual documents to customers.

In such an environment, major telecom carriers promoted efforts to capture customers by, for example, enhancing discounts on usage fees and strengthening loyalty services as part of preferential treatment of long-term subscribers while starting to offer non-telecom services such as electricity and insurance. Meanwhile, so-called budget smartphones, such as second brands of major telecom carriers and MVNOs (mobile virtual network operators), have gradually increased their market share and thus their presence in the market.

In such a business climate, unit sales of handsets decreased to 2,670,000 (down 7.2% year-on-year) as customers held back purchases following the rise in the effective purchase price of handsets. With regard to profit, profitability per customer rose, as price competition subsided and the Company focused on selling optical-fiber broadband services and tablet devices. While expenses rose due to, among others, an increase in personnel expenses to improve the working conditions of the sales staff and an increase in factor-based taxation, the Company posted the highest-ever operating profit.

As a result, the Company's financial results for the fiscal year ended March 31, 2017 were 260,016 million yen in net sales (down 7.6% year-on-year), 9,978 million yen in operating profit (up 8.4%), 10,046 million yen in ordinary profit (up 8.1%) and 6,469 million yen in profit (up 5.2%).

◆Financial results

(Million yen)

Account title	FY2015	FY2016	Year-on-year change (%)
Net sales	281,307	260,016	(7.6)
Operating profit	9,203	9,978	8.4
Ordinary profit	9,294	10,046	8.1
Profit	6,149	6,469	5.2

The financial results of each business segment were as follows.

Consumer Business

In the Consumer Business, the Company acts as an intermediary for concluding contracts for mobile phones and other communications services, provides after-sales services and sells handsets, etc., targeting at consumer customers. In addition, the Company operates a portal site “nexi” to meet the needs of smartphone users and strengthen the relationship with them.

The Company focused on sales of tablet devices and optical-fiber broadband services as well as encouraging customers to switch from feature phones to smartphones, but that was not enough to compensate for the reduction in unit sales due to the rise in the effective purchase price of handsets. The Company also strove to improve customer satisfaction by improving the store layout and hosting smartphone lessons for customers who use smartphones for the first time.
As a result, the financial results of Consumer Business were 242,954 million yen in net sales (down 7.9% year-on-year) and 11,796 million yen in operating profit (up 11.3%).

◆Financial results

(Million yen)

Account title	FY2015	FY2016	Year-on-year change (%)
Net sales	263,834	242,954	(7.9)
Operating profit	10,598	11,796	11.3

Corporate Business

In the Corporate Business, the Company acts as an intermediary for concluding contracts for mobile phones and other communication services, provides after-sales services and sells mobile phone handsets, etc., targeting at corporate customers. The Company also offers solution services using smartphones to corporate customers and prepaid cards to convenience stores, and provides IoT solutions.

Regarding Corporate Business, the Company achieved a growth in contracts for solution services to corporate customers such as mobile help desk services, in accordance with the expansion of the use of smartphones by them. While expenses increased due to the sophistication of mobile help desk services, the effects of expanding solution services steadily yielded results. Sales of prepaid cards continue to be steady and in term of IoT solutions, inquiries about the proof of concept using gateway devices are increasing.
As a result, the financial results of Corporate Business were 17,061 million yen in net sales (down 2.4% year-on-year) and 2,115 million yen in operating profit (down 1.8%).

◆Financial results

(Million yen)

Account title	FY2015	FY2016	Year-on-year change (%)
Net sales	17,472	17,061	(2.4)
Operating profit	2,154	2,115	(1.8)

(2) Overview of financial position for the fiscal year ended March 31, 2017

(i) Status of assets, liabilities and net assets

(Current assets)

Current assets decreased by 743 million yen from the end of the previous fiscal year to 74,275 million yen. This was mainly due to the decrease in accounts receivable-other by 1,483 million yen, the decrease in deferred tax assets by 855 million yen, the decrease in accounts receivable-trade by 677 million yen, the increase in cash and deposits by 1,920 million yen, and the increase in merchandise and finished goods by 315 million yen.

(Noncurrent assets)

Noncurrent assets decreased by 915 million yen from the end of the previous fiscal year to 20,978 million yen. This was mainly due to the decrease in the right of career shop management by 776 million yen, the decrease in tools, furniture and fixtures by 153 million yen, the decrease in software by 103 million yen, and the increase in buildings by 134 million yen.

As a result, total assets decreased by 1,658 million yen from the end of the previous fiscal year to 95,254 million yen.

(Current liabilities)

Current liabilities decreased by 5,667 million yen from the end of the previous fiscal year to 54,322 million yen. This was mainly due to the decrease in short-term loans payable by 2,500 million, the decrease in accrued agency commission by 2,183 million yen, the decrease in accounts payable-other by 1,843 million yen, the decrease in accounts payable-trade by 527 million yen, and the increase in income taxes payable by 1,600 million yen.

(Noncurrent liabilities)

Noncurrent liabilities decreased by 157 million yen from the end of the previous fiscal year to 6,914 million yen. This was mainly due to the decrease in deferred tax liabilities by 444 million yen, the decrease in other items by 149 million yen, and the increase in provision for retirement benefits by 445 million yen.

As a consequence, total liabilities decreased by 5,824 million yen from the end of the previous fiscal year to 61,237 million yen.

(Net assets)

Net assets increased by 4,166 million yen from the end of the previous fiscal year to 34,016 million yen. This was mainly due to the increase as a result of the recognition of profit of 6,469 million yen and the decrease as a result of dividend payments of 2,304 million yen.

As a result, the Company’s equity ratio was 35.7%.

(ii) Status of cash flows

Cash and cash equivalents (hereinafter “cash”) at the end of the fiscal year under review increased by 1,924 million yen from the end of the previous fiscal year to 5,013 million yen.

(Cash flows from operating activities)

Cash flows from operating activities resulted in a net inflow of 8,635 million yen (up 242 million yen year-on-year). This was attributable mainly to the net effect of the total cash inflow due to the recognition of profit before income taxes of 9,716 million yen, depreciation of 1,992 million yen, the decrease in accounts receivable-other by 1,483 million yen, etc., and the total cash outflow due to the decrease in notes and accounts payable-trade by 2,711 million yen, the decrease in accounts payable-other by 1,837 million yen, income taxes paid of 1,417 million yen, etc., where the former was greater than the latter.

(Cash flows from investing activities)

Cash flows from investing activities resulted in a net outflow of 1,904 million yen (up 93 million yen year-on-year). This was attributable mainly to the purchase of property, plant and equipment (1,170 million yen).

(Cash flows from financing activities)

Cash flows from financing activities resulted in a net outflow of 4,805 million yen (down 2,684 million yen year-on-year). This was attributable to the net decrease in short-term loans payable (2,500 million yen) and the cash dividends paid (2,305 million yen).

(Reference) Changes in cash flow related indicators

	Year ended March 31, 2013	Year ended March 31, 2014	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2017
Equity ratio (%)	32.4	21.8	25.1	30.8	35.7
Market-value equity ratio (%)	51.4	37.2	47.3	52.5	80.1
Cash flow to interest-bearing debt ratio (%)	—	1.0	1.1	0.3	—
Interest coverage ratio (times)	—	241.6	170.9	263.5	716.3

(Note) 1. Equity ratio: Equity / total assets
2. Market-value equity ratio: market capitalization / total assets
*Market capitalization is calculated by multiplying the stock's closing price at the term end by the number of outstanding shares at term end.
3. Ratio of interest-bearing liabilities to cash flow: Interest-bearing liabilities/cash flows from operating activities
4. Interest coverage ratio: Cash flows from operating activities/interest payments
*The operating cash flow in the year ended March 31, 2013 was negative. Accordingly, the cash flow to interest-bearing debt ratio and the interest coverage ratio are not stated.
The Company had no interest-bearing debt in the year ended March 31, 2017. Accordingly, the cash flow to interest-bearing debt ratio is not stated.

(3) Outlook

Although the Japanese economy is expected stay on a moderate recovery trend with improvements in the employment and income environments, in addition to the positive effects of various policy measures implemented by the government, the personal consumption outlook is expected to remain unclear.

In the mobile phone market in which the Company conducts business activities, price competition of handsets will likely continue to be subdued. Despite the existence of stable demand arising from regular replacement needs, needs for transition from feature phones to smartphones and for the use of tablet devices, we cannot expect unit sales to grow significantly. On the other hand, the market for so-called budget smartphones, such as second brands of major telecom carriers and MVNOs (mobile virtual network operators), will expand.

In such a business climate, the Company is working hard to achieve operating profit of 10.0 billion yen in the fiscal year ending March 2018, which is the final year of the medium-term target.

In the consumer business, the Company will push forward with improvements in operations and efficiency of customer service, utilizing portable customer service devices. Concurrently, the Company will host smartphone lessons at all the shops to remove customers' anxiety about the use of smartphones and feel comfortable in buying them. The Company will improve customer satisfaction through these activities and thereby continuously improve profitability per customer.

In the corporate business, the Company will develop customers on an ongoing basis particularly for mobile help desk services, our main services, in accordance with the expansion of the use of smartphones by corporate customers. The Company will also expand the service menu and improve service levels to secure steady revenue.

In addition, the Company will make anticipatory investment aggressively in such businesses as IoT and MVNO and thereby build a foundation for future growth.

Our full-year earnings forecasts for the fiscal year ending March 2018 are as follows: Unit sales will be 2.6 million units (down 2.9% year-on-year), net sales 252.5 billion yen (down 2.9%), operating profit 10.0 billion yen (up 0.2%), ordinary profit 10.1 billion yen (up 0.5%), and profit 6.5 billion yen (up 0.5%). The full-year earnings forecasts above have been prepared in consideration of possible events that are conceivable as of the date of this report. If any event occurs that will have significant impact on the forecasts, it will be promptly disclosed.

(4) Basic Policy on Profit Allocation, and Dividend Payment for the Current and Next Terms

The Company recognizes the return of profit to shareholders as one of the key issues of management and it is our basic profit appropriation policy to endeavor to improve financial results so that we can pay stable dividends at a payout ratio of 40% consistently over period.

Based on this policy, after considering various factors including the financial results for the fiscal year under review and the stability of dividends, the Company plans to increase the year-end dividend by 4 yen per share from the amount forecast at the beginning of the current fiscal year to 30 yen per share for the fiscal year under review. As a result, full-year dividend will increase from the previous fiscal year by 8 yen to 56 yen per share (interim at 26 yen, year-end at 30 yen).

For the next fiscal year, the Company plans to pay special dividend of 5 yen per share commemorating its 20th anniversary as of August 19, 2017 as part of year-end dividend. As a result, full-year dividend will increase from the current fiscal year by 9 yen to 65 yen per share (interim at 30 yen, year-end at 35 yen).

Internal reserves will be used to enhance carrier-certified shops and other business development to ensure the expansion and the growth of the business.

(5) Business Risks

Risks that may impact the operating results and the financial condition of the Company are stated below. Items that do not fall under the category of business risks are also included from the viewpoint of proactive disclosure if an item is deemed significant in terms of investment decision-making by investors. The Company recognizes the potential for these risks, and then endeavors to avoid their occurrence, as well as to localize and minimize the impact, should the risks materialize. The decision to invest in the Company, however, must ultimately lie with the measured judgment and self-responsibility of the investor. Items concerning the future in the text below have been recognized by the Company as of the filing date.

< Social, economic and regulatory risks>

① Personal information leakage, etc.

The Company deals with personal information disclosed by subscribers to telecom carriers when contracts are concluded, etc. The Company also obtains personal information through our proprietary services. When contracts are concluded, etc., The Company continues with its efforts to maintain a watertight management system by complying with the strict rules and manuals of the telecom carriers, by endeavoring to train employees and manage business partners, and by obtaining ISO27001 (see note 2) certification for the scope of work that accumulates personal information (see note 1), among other efforts. However, in the unlikely event that a leak occurs, the Group may be held responsible by its business partners, the Group's reputation may suffer, and the financial results of the Group may be significantly impacted.

(Note) 1. Certified scope of work:

- Acting as an intermediary for concluding mobile phone contracts in Call Center, Distribution Center
- Network solution service, Mobile solution service
- Acting as an intermediary for concluding mobile phone contracts, providing after-sales services to subscribers, and selling mobile phone handsets for corporate customers in the Head Office, branch offices and business centers

2. International Standards for information security management systems

② Laws and regulations

The agency business for the telecom carriers, etc. is subject to various laws and regulations including the Telecommunications Business Act, the Antimonopoly Act (Act on Prohibition of Private Monopolization and Maintenance of Fair Trade), the Act against Unjustifiable Premiums and Misleading Representations , the Act on the Protection of Personal Information, the Act on Identification, etc. by Mobile Voice Communications Carriers of their Subscribers, etc. and for Prevention of Improper Use of Mobile Voice Communications Services, the Act on Establishment of Enhanced Environment for Youth's Safe and Secure Internet Use, the Guidelines on the Protection of Personal Information in the Telecommunications Business, and the Code of Ethics in Sales Activities of Agents prescribed by the Telecommunications Carriers Association. The Company makes efforts to strengthen the internal management system including the employee education to comply with these laws and regulations. However, if there is a violation of these laws and regulations, the Company may be subject to claims for compensation for damages, cancellation of agency contracts, suspension of operation, etc. This may significantly impact the financial results of the Company.

③ Effect of changes in the rules proposed by the Ministry of Internal Affairs and Communications

In January 2017, the Ministry of Internal Affairs and Communications developed "Guidelines for the Terms and Conditions for the Provision of Mobile Services and Handsets," which replace previous guidelines, and amended the "Guidelines for Consumer Protection Rules for the Telecommunications Business Act." In spite of proper responses the Company makes to these guidelines, any future amendment of laws and regulations relating these developments may affect the strategies of telecom carriers as well as the entire mobile phone market and may also affect the business and financial results of the Company.

<Risks concerning business strategy>

④ Concentration on mobile phone agency business

The sales of the Company are largely from the mobile phone agency business. Steady demand is expected in the mobile phone market, particularly from replacement needs. However, if mobile phone services and products themselves lose their appeal or substitute services/products are commercialized, their sales may significantly contract and this may impact the financial results of the Company.

⑤ Business expansion through business acquisitions, etc.

The Company may, among other things, expand its business or distribution network through business transfer or merger involving other companies in the industry in the future. Goodwill emerging as a result of such merger may impact the financial position and the financial results of the Company. Depending on the market conditions or economic environment, there is no guarantee that such merger, etc. will produce results that had been initially expected and this may impact the financial results of the Company. Similarly, goodwill, etc. resulting from the merger with Panasonic Telecom Co. on October 1, 2012 may also impact the financial results of the Company.

< Risks relating to the market and competition >

⑥ Impact of telecom carriers' business policies

The Company obtains commissions from telecom carriers for selling mobile phone handsets, concluding mobile phone contracts, and after-sales service. The commission system is different for each telecom carrier, and the type, unit price, subject period, subject customers and contents of the service for commission payment, the ratio against the communications fees paid, etc., may be reviewed accordingly depending on each telecom carrier's performance and sales policy. Furthermore, it is required in the agency contract with the telecom carrier that if a user who has entered into a contract via the Company cancels the contract within a certain period, the Company must return part of the commission which was paid to the Company from the telecom carrier at the time of the contract. Agency contracts with telecom carriers that underline these transactions are usually renewed automatically

every year, although the contract can be dissolved either by the telecom carrier or the Company by advance notice. Such business policies and changes in the contracts may significantly impact the financial results of the Company.

⑦ Constraints in store development

The Company has carrier-certified shops across the country based on the service agreement which is attached to the agency agreement with the telecom carrier (the Company owns or rents 274 stores in addition to 149 stores of which operation the Company contracts out to secondary agencies), and the Company intends to continue its aggressive opening of new stores and its review of locations from the viewpoint of profitability. However, the entity operating a carrier-certified shop is selected by the telecom carrier, and there are many carrier-certified stores that already exist in the market, with limited room for new stores, and thus things may not go according to plan. In cases where operation is contracted out to a secondary agency, the management policy of the secondary agency may affect the service quality of the Company's network of stores, and thus the financial results of the Company may be affected.

⑧ Concentration of sales and purchases on NTT DOCOMO, INC.

The main business of the Company is the agency business for NTT DOCOMO, INC. NTT DOCOMO, INC. is the leading company in the industry with about a 45% share of mobile phone subscribers as of the end of December 2016 (source: Telecommunications Carriers Association). The Company has shared marketing strategies with NTT DOCOMO, INC. from the earliest days of the mobile phone market, and has invested management resources in expanding docomo shops and developing strong sales channels such as major electronics retailers, which together contribute considerably to the Company's high profitability. However, if a situation occurs such as the customer base of NTT DOCOMO, INC. contracts drastically due, for example, to competition among telecom carriers, this may impact the financial results of the Company.

[Commission income]

	Year ended March 31, 2016		Year ended March 31, 2017	
	Net sales (million yen)	Component ratio (%)	Net sales (million yen)	Component ratio (%)
Commission income (NTT DOCOMO, INC.)	56,060	76.2	55,716	76.7
Total commission income	73,534	100.0	72,626	100.0

[Cost of purchased goods]

	Year ended March 31, 2016		Year ended March 31, 2017	
	Purchase of goods (million yen)	Component ratio (%)	Purchase of goods (million yen)	Component ratio (%)
Cost of purchased goods (NTT DOCOMO, INC.)	186,067	90.2	165,944	89.6
Total cost of purchased goods	206,275	100.0	185,268	100.0

<Risks relating to human resources>

⑨ Securing necessary personnel

In the mobile phone sales business in which the Company conducts business activities, shops are required to respond to a wide variety of customer needs due to the advancement of the functionality of smartphones, tablet devices, etc., and increasingly diverse service offerings, which have resulted in longer service time per customer. Consequently, the importance of securing competent sales staff and raising their retention rate is increasing. The Company is strengthening regular recruiting of new graduates as well as mid-carrier recruiting throughout the year and is promoting its company-wide education system “CONEXIO College” for effective human resource development.

In the light of the fact that the ratio of female employees is high, the Company promotes the opportunities for female employees

to work actively by providing the environment with consideration for female employees and the support system for those before and after maternity leave.

Furthermore, the Company promotes flexible work style with an aim to motive its employees with each personality and value to work more actively. In this way, the Company supports the Work-Life Balance of its employees as well as endeavors to realize diversity. However, if the Company is unable to secure employee including sales staff as planned, this may destabilize the financial results of the Company.

<Risks relating to the parent company>

⑩ Relationship with the parent company

As of the filing date, ITOCHU Corporation is the parent company and owns 60.35% of voting rights of the Company. However, the business and human relationships, etc. are limited. As a result, if the capital relationship with the parent company were to change, the impact on the business would be minor.

2. Corporate Group

The corporate group consists of the Company and CONEXIO WITH Corporation (a wholly-owned subsidiary to promote the employment of people with disabilities, unconsolidated). The Group's core business is to serve as a sales agency, which involves acting as an intermediary for concluding contracts of communication services such as mobile phones, providing after-sales services to subscribers, and selling mobile phone handsets, etc.

“Intermediary for concluding contracts of communication services” refers to acting as an intermediary based on agency agreements with telecom carriers (such as NTT DOCOMO, INC., KDDI Corp., Softbank Corp., etc.) to conclude contracts of telecommunications services provided by the telecom carriers for consumer and corporate customers. The Company receives commissions from the telecom carriers at the time of conclusion of contract and during certain subsequent periods. The Company also receives commissions relating to various after-sales services for customers at carrier-certified shops (such as docomo shops, au shops and Softbank shops). The “sale of mobile phone handsets” refers to sale of mobile communication terminals such as mobile phones purchased from telecom carriers, etc., to consumer and corporate customers.

The Company carries out these business activities at carrier-certified shops and major electronics retailers, as well as in the corporate business departments.

(1) Consumer Business

In the Consumer Business, the Company mainly acts as an intermediary for concluding contracts for mobile phones and other communications services, provides after-sales services and sells handsets, etc., targeting at consumer customers. The Company has two main sales channels: carrier-certified shops and major electronics retailers. The Company does not operate small shops that specialize in the sale of mobile phone handsets without contracted after-sales services. In addition, the Company operates a portal site “nexi” to meet the needs of smartphone users and strengthen the relationship with them.

(2) Corporate Business

In the Corporate Business, the Company acts as an intermediary for concluding contracts for mobile phones and other communication services, provides after-sales services and sells mobile phone handsets, etc., targeting at corporate customers. The Company also offers solution services using smartphones to corporate customers and provides prepaid cards to convenience stores and IoT solutions (such as technology for the automated mutual collection of information, management and control between networked machines).

3. Management Policy

(1) Basic Company Management Policy

Under the philosophy statement "the Company is to connect people and values," the Company desires to achieve sustainable growth of enterprise value by contributing to the realization of a secure and comfortable society and deepening the bond of trust with all stakeholders.

(2) Mid to Long-term Management Strategy and Management Issues Requiring Action

< Mid to Long-term Management Strategy >

In the fiscal year ending March 2018, which is the final year of the medium-term target, the Company will aim to achieve operating profit of 10.0 billion yen, while making aggressive anticipatory investment, characterizing the fiscal year as a "foothold toward future growth", in preparation for changes in the business environment going forward.

Medium-term target

Operating profit of 10.0 billion yen in the fiscal year ending March 2018

(1) Sustainable growth in the existing business

In the existing business, the Company will aim to become a community-based "customers' favorite agency" through "the improvement of customer satisfaction," while maintaining expenses at appropriate levels and promoting human resource development.

(2) Mobile solution services as a growth driver and investment in growing businesses

In anticipation of changes in future business environment, the Company will allocate resources heavily to mobile solution services in which the strengths of the Company can be effectively utilized and thereby build a foundation for future growth.

<Management issues requiring action>

Based on the medium-term target mentioned above, the Company will focus on the following activities that are identified as management challenges.

① Pursue profit by adapting to changes in the environment

In the consumer business, the Company will work on the standardization of shop operation quality at higher levels, aiming to offer attractive shops that customers love to visit again and again. In addition to the improvement of customer satisfaction through the provision of smartphone lessons, the Company will push forward with the improvement of operations of the shops.

In the corporate business, the Company will aggressively promote solution services to corporate customers, which are built around mobile help desk services, our main services. In addition, by teaming up with partner companies with strengths in various industries, the Company will support the effective use of smartphones, tablet devices, and eventually wearable devices by corporate customers.

The Company will also make ongoing efforts to streamline its business operations and maintain expenses at appropriate levels.

② Developing new revenue sources

The Company will make investment aggressively in the businesses that it started in the previous fiscal year and thereby build a foundation for future growth. The portal site "nexi" for smartphone users will be upgraded for the provision of more attractive and advanced services such as reservation system of carrier-certified shops. The Company will also accelerate the expansion of the

new retail business and strategically secure selling places. The Company will secure orders of IoT gateways, for which proof of concept is underway, with the mass production.

③ Securing talents and strengthening control

In order to raise the retention rate of employees and effectiveness of recruiting activities, the Company will promote the optimal work-life balance by such means as encouraging employees to take consecutive vacation days and developing various childcare and nursing care programs, as well as establishing a regular monthly holiday and promoting shorter business hours at carrier-certified shops. Moreover, the Company will work on further “workstyle reform” including health promotion and women’s empowerment support. The Company will also develop human resources using the company-wide education system “CONEXIO College.” In addition, the Company will strengthen compliance functions and work on continuous improvement of corporate governance.

4. Non-consolidated Financial Statements

(1) Non-consolidated Balance Sheets

(Million yen)

	Previous fiscal year (March 31, 2016)	Current fiscal year (March 31, 2017)
Assets		
Current assets		
Cash and deposits	2,958	4,879
Accounts receivable - trade	46,020	45,343
Merchandise and finished goods	7,985	8,301
Raw materials and supplies	96	87
Prepaid expenses	712	751
Deferred tax assets	2,319	1,463
Accounts receivable - other	14,809	13,325
Deposits paid	130	134
Other	—	0
Allowance for doubtful accounts	(13)	(11)
Total current assets	75,018	74,275
Non-current assets		
Property, plant and equipment		
Buildings	4,285	4,743
Accumulated depreciation	(2,017)	(2,341)
Buildings, net	2,267	2,402
Structures	247	289
Accumulated depreciation	(89)	(96)
Structures, net	158	192
Machinery and equipment	9	9
Accumulated depreciation	(1)	(2)
Machinery and equipment, net	7	7
Tools, furniture and fixtures	3,944	4,105
Accumulated depreciation	(2,286)	(2,600)
Tools, furniture and fixtures, net	1,658	1,505
Land	64	52
Construction in progress	29	11
Total property, plant and equipment	4,186	4,170
Intangible assets		
Goodwill	1,830	1,745
Software	491	388
Software in progress	—	1
The right of carrier shop management	11,102	10,326
Other	12	11
Total intangible assets	13,436	12,472
Investments and other assets		
Investment securities	258	261
Shares of subsidiaries and associates	30	30
Long-term prepaid expenses	289	335
Lease and guarantee deposits	3,611	3,607
Other	163	183
Allowance for doubtful accounts	(82)	(82)
Total investments and other assets	4,270	4,335
Total non-current assets	21,894	20,978
Total assets	96,912	95,254

(Million yen)

	Previous fiscal year (March 31, 2016)	Current fiscal year (March 31, 2017)
Liabilities		
Current liabilities		
Accounts payable - trade	24,808	24,280
Accrued agency commission	10,579	8,395
Short-term loans payable	2,500	—
Accounts payable - other	13,402	11,558
Accrued expenses	2,707	2,914
Income taxes payable	521	2,122
Accrued consumption taxes	507	497
Advances received	77	16
Deposits received	1,192	1,134
Provision for bonuses	3,637	3,324
Provision for directors' bonuses	34	30
Other	21	47
Total current liabilities	59,990	54,322
Non-current liabilities		
Provision for retirement benefits	4,109	4,554
Deferred tax liabilities	2,080	1,635
Asset retirement obligations	425	416
Other	457	307
Total non-current liabilities	7,072	6,914
Total liabilities	67,062	61,237
Net assets		
Shareholders' equity		
Capital stock	2,778	2,778
Capital surplus		
Legal capital surplus	3,180	3,180
Other capital surplus	6,598	6,598
Total capital surpluses	9,779	9,779
Retained earnings		
Legal retained earnings	5	5
Other retained earnings		
General reserve	2,469	2,469
Retained earnings brought forward	23,898	28,063
Total retained earnings	26,373	30,538
Treasury shares	(9,194)	(9,194)
Total shareholders' equity	29,737	33,902
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	113	114
Total valuation and translation adjustments	113	114
Total net assets	29,850	34,016
Total liabilities and net assets	96,912	95,254

(2) Non-consolidated Statements of Income

(Million yen)

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Net sales		
Net sales of goods	207,773	187,390
Commission income	73,534	72,626
Total net sales	281,307	260,016
Cost of sales		
Beginning goods	8,301	7,985
Cost of purchased goods	206,275	185,268
Total	214,576	193,253
Ending goods	8,048	8,317
Valuation loss on goods	63	16
Cost of goods sold	206,591	184,952
Agent fee	28,501	26,803
Total cost of sales	235,093	211,756
Gross profit	46,214	48,260
Selling, general and administrative expenses		
Directors' compensations	157	155
Salaries and allowances	10,237	10,864
Bonuses	1,248	1,194
Provision for bonuses	3,637	3,324
Provision for directors' bonuses	34	30
Retirement benefit expenses	644	654
Legal welfare expenses	3,356	3,358
Temporary staffing expense	1,523	1,785
Packing and delivery expenses	282	358
Promotion expenses	2,307	2,521
Communication expenses	583	577
Rents	4,040	4,150
Repair and maintenance	874	896
Business consignment expenses	1,205	1,237
Rent expenses	143	135
Depreciation	1,992	1,992
Amortization of goodwill	113	124
Other	4,628	4,920
Total selling, general and administrative expenses	37,011	38,282
Operating profit	9,203	9,978

(Million yen)

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Non-operating income		
Interest income	0	0
Dividend income	3	10
Support money of store move etc income	102	67
Other	67	49
Total non-operating income	173	127
Non-operating expenses		
Interest expenses	30	12
Loss on sales and retirement of non-current assets	28	27
Rent expenses on real estates	11	8
Other	11	10
Total non-operating expenses	82	58
Ordinary profit	9,294	10,046
Extraordinary income		
Gain on sales of non-current assets	1	0
Gain on sales of investment securities	11	—
Gain on transfer of business	297	—
Total extraordinary income	309	0
Extraordinary losses		
Loss on closing of stores	34	61
Loss on sales and retirement of non-current assets	13	34
Impairment loss	165	234
Total extraordinary losses	213	330
Profit before income taxes	9,390	9,716
Income taxes - current	2,048	2,817
Income taxes - deferred	1,193	430
Total income taxes	3,241	3,247
Profit	6,149	6,469

(3) Statement of Changes in Shareholders' equity

Previous fiscal year (From April 1, 2015 to March 31, 2016)

(Million yen)

	Shareholders' equity							
		Capital surplus			Retained earnings			
						Other retained earnings		
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	General reserve	Retained earnings brought forward	Total retained earnings
Balance at beginning of current period	2,778	3,180	6,598	9,779	5	2,469	19,739	22,214
Changes of items during period								
Dividends of surplus							(1,990)	(1,990)
Profit							6,149	6,149
Purchase of treasury shares								
Net changes of items other than shareholders' equity								
Total changes of items during period	—	—	—	—	—	—	4,158	4,158
Balance at end of current period	2,778	3,180	6,598	9,779	5	2,469	23,898	26,373

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	(9,193)	25,579	152	152	25,731
Changes of items during period					
Dividends of surplus		(1,990)			(1,990)
Profit		6,149			6,149
Purchase of treasury shares	(0)	(0)			(0)
Net changes of items other than shareholders' equity			(39)	(39)	(39)
Total changes of items during period	(0)	4,158	(39)	(39)	4,118
Balance at end of current period	(9,194)	29,737	113	113	29,850

Current fiscal year (From April 1, 2016 to March 31, 2017)

(Million yen)

	Shareholders' equity							
		Capital surplus			Retained earnings			
						Other retained earnings		
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	General reserve	Retained earnings brought forward	Total retained earnings
Balance at beginning of current period	2,778	3,180	6,598	9,779	5	2,469	23,898	26,373
Changes of items during period								
Dividends of surplus							(2,304)	(2,304)
Profit							6,469	6,469
Purchase of treasury shares								
Net changes of items other than shareholders' equity								
Total changes of items during period	—	—	—	—	—	—	4,164	4,164
Balance at end of current period	2,778	3,180	6,598	9,779	5	2,469	28,063	30,538

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	(9,194)	29,737	113	113	29,850
Changes of items during period					
Dividends of surplus		(2,304)			(2,304)
Profit		6,469			6,469
Purchase of treasury shares		—			—
Net changes of items other than shareholders' equity			1	1	1
Total changes of items during period	—	4,164	1	1	4,166
Balance at end of current period	(9,194)	33,902	114	114	34,016

(4) Non-consolidated Cash Flows

(Million yen)

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Cash flows from operating activities		
Profit before income taxes	9,390	9,716
Depreciation	1,992	1,992
Amortization of goodwill	113	124
Impairment loss	165	234
Increase (decrease) in allowance for doubtful accounts	(7)	(1)
Increase (decrease) in provision for bonuses	(1,525)	(313)
Increase (decrease) in provision for directors' bonuses	(18)	(3)
Increase (decrease) in provision for retirement benefits	373	445
Interest and dividend income	(3)	(10)
Interest expenses	30	12
Loss (gain) on sales of investment securities	(11)	-
Gain on business transfer	(297)	-
Decrease (increase) in notes and accounts receivable - trade	2,615	616
Decrease (increase) in accounts receivable - other	495	1,483
Decrease (increase) in inventories	307	(289)
Increase (decrease) in notes and accounts payable - trade	1,316	(2,711)
Increase (decrease) in accounts payable - other	(1,451)	(1,837)
Increase (decrease) in accrued consumption taxes	(1,112)	(9)
Other, net	(217)	549
Subtotal	12,158	9,996
Interest and dividend income received	3	10
Interest expenses paid	(31)	(12)
Income taxes (paid) refund	(3,836)	(1,417)
Other, net	98	57
Net cash provided by (used in) operating activities	8,392	8,635
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,459)	(1,170)
Purchase of intangible assets	(211)	(153)
Proceeds from sales of investment securities	24	-
Proceeds from liquidation of subsidiaries and associates	24	-
Payments for lease and guarantee deposits	(444)	(257)
Proceeds from collection of lease and guarantee deposits	117	120
Purchase of long-term prepaid expenses	(199)	(195)
Proceeds from transfer of business	396	-
Payment for transfer of business	-	(90)
Payments for transfer of business	(8)	(96)
Other, net	(50)	(59)
Net cash provided by (used in) investing activities	(1,811)	(1,904)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(2,500)	(2,500)
Repayments of long-term loans payable	(3,000)	-
Cash dividends paid	(1,990)	(2,305)
Other, net	(0)	-
Net cash provided by (used in) financing activities	(7,490)	(4,805)
Net increase (decrease) in cash and cash equivalents	(908)	1,924
Cash and cash equivalents at beginning of period	3,997	3,088
Cash and cash equivalents at end of period	3,088	5,013