Summary of Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2018 [Japanese GAAP]

May 1, 2018

Company name: CONEXIO Corporation
Stock exchange listing: Tokyo Stock Exchange, First Section
Stock code: 9422
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Scheduled date of annual general meeting of shareholders: June 26, 2018
Scheduled date for filing of annual securities report: June 26, 2018
Scheduled date of commencement of dividend payment: June 27, 2018
Supplementary briefing material on annual results: Available
Briefing session of 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, 2018 (from April 1, 2017 to March 31, 2018)

(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, 2018	264,897	1.9	10,207	2.3	10,293	2.5	6,738	4.2
March 31, 2017	260,016	(7.6)	9,978	8.4	10,046	8.1	6,469	5.2

	Earnings per share	Diluted earnings per share	ROE	ROA	Operating profit to net sales ratio
Fiscal year ended	yen	yen	%	%	%
March 31, 2018	150.62	—	18.7	10.5	3.9
March 31, 2017	144.60	—	20.3	10.5	3.8

(Reference) Equity in earnings of affiliates: March 31, 2018: － million yen March 31, 2017: － 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, 2018	100,776	38,174	37.9	853.30
March 31, 2017	95,254	34,016	35.7	760.35

(Reference) Equity: March 31, 2018: 38,174 million yen March 31, 2017: 34,016 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, 2018	7,574	(2,079)	(2,685)	7,821
March 31, 2017	8,635	(1,904)	(4,805)	5,013

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, 2017	—	26.00	—	30.00	56.00	2,505	38.7	7.8
March 31, 2018	—	30.00	—	35.00	65.00	2,907	43.2	8.1
Fiscal Year ending March 31, 2019(Forecast)	—	30.00	—	30.00	60.00		39.8	

(Note) Breakdown of annual dividend for FY2017:
Ordinary dividend of 60 yen + Commemorative dividend of 5 yen (celebrating 20th company anniversary)

3. Financial Forecast for Fiscal Year Ending March 31, 2019 (from April 1, 2018 to March 31, 2019)

(% 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	270,000	1.9	10,210	0.0	10,295	0.0	6,740	0.0	150.66

Note: Financial Forecasts for the First-half year are not 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)	FY2017	44,737,938 Shares	FY2016	55,923,000 Shares
(ii) Number of shares of treasury stock as of the end of period	FY2017	86 shares	FY2016	11,185,062 Shares
(iii) Average number of shares during the period (cumulative)	FY2017	44,737,910 shares	FY2016	44,737,938 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. For information on assumptions of the financial forecasts and matters to be heeded upon using the financial forecasts, please refer to "1. Overview of operating results, etc. (3) Outlook" on page 4 of the Appendix

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1. Overview of operating results, etc.

(1) Overview of operating results for the fiscal year ended March 31, 2018

(i) Operating results for the fiscal year ended March 31, 2018

During the fiscal year ended March 31, 2018, the Japanese economy was on a moderate recovery trend with improvements in corporate earnings as well as the employment and income environments. On the other hand, its outlook remained unclear due to the uncertainty of the overseas economies.
In the mobile phone market in which the Company conducts business activities, major telecom carriers, aiming to capture customers, have been implementing measures to compete against budget smartphones including the introduction of new charge plans that incorporate handset prices and charge plans that match the usage condition of the customers. Furthermore, the carrier-certified shops are strictly being required to offer filtering services to customers who are minors in conjunction with the revision of the consumer protection rules.
Meanwhile, due to the increasingly diverse service offerings and the increase in the hours serving customers, the burden on shop staff has grown, and accordingly, efforts are being promoted to improve working conditions including shortening business hours, designating a monthly regular holiday as well as recommending closing the shops through the year-end and New Year holidays.
In such a business climate, as a result of efforts to promote the sales of tablet devices as well as to encourage customers to switch from feature phones to smartphones, unit sales of handsets increased to 2,710,000 (up 1.5% year-on-year). In addition to improvements in gross profit due to the price revision of certain handsets, revenue increased thanks to the strong sales of mobile BPO services to corporate customers (outsourcing services such as mobile help desk and handset kitting services). The Company also renovated and relocated carrier-certified shops and reinforced the system of mobile BPO services for corporate customers.
As a result, operating profit reached record high by increasing for the seventh consecutive term and the Company achieved the medium-term target of 10,000 million yen in operating profit. The Company's financial results for the fiscal year ended March 31, 2018 were 264,897 million yen in net sales (up 1.9%), 10,207 million yen in operating profit (up 2.3%), 10,293 million yen in ordinary profit (up 2.5%) and 6,738 million yen in profit (up 4.2%).

◆Financial results

(Million yen)

Account title	FY2016	FY2017	Year-on-year change (%)
Net sales	260,016	264,897	1.9
Operating profit	9,978	10,207	2.3
Ordinary profit	10,046	10,293	2.5
Profit	6,469	6,738	4.2

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.

In the Consumer Business, Sales of handsets increased steadily as sales of tablet devices as well as customers switching to smartphones increased. As part of initiatives to make the carrier-certified shops more attractive and make the customers want to visit again, the Company hosted smartphone lessons at the shops and made efforts to offer optimal proposals in line with the lifestyle of each customer. The Company’s new unique portal site for smartphones, “nexiplus,” focused on acquiring new customers by expanding contents and adding new functions. Furthermore, the Company strengthened sales staff recruiting and worked to enlarge the shops by relocating in order to expand the waiting area of the shops and the experience corners.
As a result, the financial results of the Consumer Business were 245,534 million yen in net sales (up 1.1% year-on-year) and 12,625 million yen in operating profit (up 7.0%).

◆Financial results

(Million yen)

Account title	FY2016	FY2017	Year-on-year change (%)
Net sales	242,954	245,534	1.1
Operating profit	11,796	12,625	7.0

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 mobile BPO services using smartphones to corporate customers and prepaid cards to convenience stores, and provides IoT solutions.

In the Corporate Business, transactions involving mobile BPO services have been growing in conjunction with the increasing number of companies adopting smartphones. The Company began to see the results of its cooperation with business partners and accordingly reinforced various systems including the mobile help desk to further expand such transactions going forward. Meanwhile revenue from the sales of prepaid cards decreased due to a revision in transaction terms. As for IoT solutions, the Company commenced full-scale mass production by expanding services to support for the implementation of systems using gateway devices.
As a result, the financial results of Corporate Business were 19,362 million in net sales (up13.5%) and 1,591 million yen in operating profit (down 24.8%).

◆Financial results

(Million yen)

Account title	FY2016	FY2017	Year-on-year change (%)
Net sales	17,061	19,362	13.5
Operating profit	2,115	1,591	(24.8)

(2) Overview of financial position for the fiscal year ended March 31, 2018

(i) Status of assets, liabilities and net assets

(Current assets)
Current assets increased by 5,964 million yen from the end of the previous fiscal year to 80,239 million yen. This was mainly due to the increase in accounts receivable-trade by 3,590 million yen, the increase in cash and deposits by 2,726 million yen, the increase in merchandise and finished goods by 599 million yen and the decrease in accounts receivable-other by 1,136 million yen.

(Non-current assets)
Non-current assets decreased by 442 million yen from the end of the previous fiscal year to 20,536 million yen. This was mainly due to the decrease in the right of career shop management by 675 million yen, the decrease in goodwill by 123 million yen, the increase in investment securities by 151 million yen and the increase in buildings by 146 million yen.
As a result, total assets increased by 5,522 million yen from the end of the previous fiscal year to 100,776 million yen.

(Current liabilities)
Current liabilities increased by 1,317 million yen from the end of the previous fiscal year to 55,640 million yen. This was mainly due to the increase in accrued agency commission by 1,278 million yen, the increase in accrued expenses by 754 million yen, the increase in accounts payable-other by 542 million yen, the increase in income taxes payable by 477 million yen and the decrease in accounts payable-trade by 1,838 million yen.

(Non-current liabilities)
Non-current liabilities increased by 46 million yen from the end of the previous fiscal year to 6,961 million yen. This was mainly due to the increase in provision for retirement benefits by 333 million yen and the decrease in deferred tax liabilities by 266 million yen.
As a result, total liabilities increased by 1,364 million yen from the of the previous fiscal year to 62,601 million yen.

(Net assets)
Net assets increased by 4,158 million yen from the end of the previous fiscal year to 38,174 million yen. This was mainly due to the increase as a result of the recognition of profit of 6,738 million yen and the decrease as a result of dividend payment of 2,684 million yen.
As a result, the Company’s equity ratio was 37.9%.

(ii) Status of cash flows
Cash and cash equivalents (hereinafter “cash”) at the end of the fiscal year under review increased by 2,807 million from the end of the previous fiscal year to 7,821 million yen.

(Cash flows from operating activities)
Cash flows from operating activities resulted in a net inflow of 7,574 million yen (down 1,060 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 10,076 million yen, the recognition of 2,033 million yen, the decrease in accounts receivable-other by 1,132 million yen, etc. and the total cash outflow due to the increase in notes and accounts receivable - trade by 3,593 million yen and income taxes paid of 3,183 million yen, where the former was greater than the latter.

(Cash flows from investing activities)
Cash flows from investing activities resulted in a net outflow of 2,079 million yen (up 175 million yen year-on-year). This was attributable mainly due to the purchase of property, plant and equipment (1,448 million yen).

(Cash flows from financing activities)
Cash flows from financing activities resulted in a net outflow of 2,685 million yen (down 2,120 million yen year-on-year). This was attributable mainly to cash dividends paid (2,684 million yen).

(Reference) Changes in cash flow related indicators

	Year ended March 31, 2014	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2018
Equity ratio (%)	21.8	25.1	30.8	35.7	37.9
Market-value equity ratio (%)	37.2	47.3	52.5	80.1	100.7
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	907.8

(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 Company had no interest-bearing debt in the year ended March 31, 2017 and the year ended March 31, 2018. Accordingly, the cash flow to interest-bearing debt ratio is not stated.

(3) Outlook

(i) Perception of the business environment

In the mobile phone market in which the Company conducts business activities, intensified competition to capture customers due to the entry of the fourth telecommunication carriers and the expansion of online sales of handsets are expected in the next three years. Moreover, demand accompanying the switch from feature phones to smartphones and the launch of handsets correspond to "5G," the next-generation communication standards, ahead of 2020 are also anticipated. The use of smartphones and tablets as well as the utilization of outsourcing services for operational support are expected to accelerate among corporate customers. Furthermore, with added innovation made possible by state-of-the-art technology such as 5G and IoT/AI, increasing opportunities for offering mobile solutions to corporate customers are expected. Meanwhile, in the labor market, with the serious shortage in the youthful workforce as a result of the declining birthrate and soaring labor costs, harsh employment conditions are expected to continue.

Under such a business environment, the Company has formulated a medium-term management plan ending in the fiscal year ending March 31, 2021.

(ii) Basic policy of the medium-term management plan

CONEXIO Plan 2020

Strengthening Touch points with Costumers and Enhancing Productivity towards Achieving a Smart Society Pioneered by 5G

Given that the Company as a member of the telecommunication industry is afforded opportunities to access state-of-the-art practical technology such as 5G ahead of others, We believe that the company has a responsibility to utilize these technologies to enrich society. Particularly from a role which we are in customer contact points, the Company recognizes the expectations placed on its role to connect people with new services to the end of realizing a society in which everyone can enjoy the benefits of 5G. The Company, as an optimal partner, will firmly standby our customers to provide secure and reliable services towards the age of 5G.

Furthermore, in an increasingly harsh employment environment, the Company intends to enhance productivity by reviewing its existing services, proactively adopting IT systems and investing in human capital.

(iii) 5 business strategies that look towards the age of 5G

In order to achieve the basic policy of the plan, the Company has formulated 5 business strategies that look towards the age of 5G, as follows.

[5 Business Strategies that Look towards the Age of 5G]

1. Build a long-term relationship with customers
2. Achieve highly productive shop operations
3. Evolve into a mobile solutions provider
4. Enhance IoT/5G solutions
5. Reinforce the management base
   - Capital strategy: Aim for a dividend payout ratio of 40% and ROE of 15%
   - Investment strategy: Steadily carry out strategic investments that will lead to future growth
   - Human capital strategy: Reinforce human capital investments that sustain CONEXIO
   - ESG/CSR management: Further promote ESG/CSR management

＜1. Build a long-term relationship with customers＞

To have as many customers as possible continue visiting the shops, the Company, will aim to become “the No. 1 shop in the community that will stand the test of time,” by establishing attractive and high value-added brick and mortar shops that stand by their customers.

＜2. Achieve highly productive shop operations＞

The Company will aim for shops that do not keep the customers waiting, by transforming shop operations and raising productivity.

＜3. Evolve into a mobile solutions provider＞

The Company will solidify the operating base for its mobile BPO services (outsourcing services including mobile help desks and handset kitting services) for corporate customers, by enhancing the efficiency of its services and making system investments. In addition, it will provide solutions that integrate apps, security and systems to encourage the utilization of mobile devices by companies.

＜4. Enhance IoT/5G solutions＞

In terms of IoT/5G solutions, the Company will expand “SmartReady IoT,” a service to support the adoption of IoT systems, using the IoT gateway device. In addition, the Company will also expand the range of its cloud services including the provision of industry- and business category-specific solutions.

＜5. Reinforce the management base＞

・Capital strategy

The Company upholds the basic policy on profit allocation to endeavor to improve financial results so that it can consistently pay stable dividends at a payout ratio of about 40%. During the period of the plan, it will aim for ROE of 15% and focus on maintaining its capital efficiency.

・Investment strategy

The Company will steadily carry out strategic investments that will lead to future growth, while at the same time make investments in directly-operated shops to make them the No. 1 shops in the community as well as growth investments such as reinforcing the functions of the IT systems to enhance the productivity of the shops.

・Human capital strategy

In addition to the existing measures such as converting shop sales staff into regular employees, “workstyle reforms,” and improving the work-life balance of its employees, the Company will make proactive investments in human capital in the hopes of further raising the motivation of its employees, through an overhaul of its personnel system including improving the benefits of its shop sales staff and raising the retention rate.

Furthermore, the Company will promote the company-wide education system, “CONEXIO College” as well as further encourage the promotion of women.

・ESG/CSR management

(Environment)

The Company will make efforts to lessen the environmental burden in business processes through such initiatives as collecting used mobile phones and reducing power usage.

(Society)

In recognition of its role as a company responsible for social infrastructure, the Company will continue to offer high-quality services that will satisfy its customers, while at the same time continuing educational activities to promote the safe and secure use of the Internet.

(Governance)

The Company recognizes compliance and information security to be its highest priority CSR tasks, and will continue to make efforts to establish an effective control system and to improve the education and training of its employees.
Furthermore, in terms of corporate governance, the Company is committed to further strengthening the supervisory functions of the board of directors, while at the same time introducing new medium- to long-term incentives for its directors and executive officers conditional upon achieving this plan and enhancing the Company's corporate value in the medium- to long-term.

(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 about 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 pay a year-end dividend of 35 yen per share, consisting of the regular dividend of 30 yen per share and a commemorative dividend of 5 yen per share celebrating the Company's 20th anniversary. As a result, the full-year dividend will increase from the previous fiscal year by 9 yen to 65 yen per share (interim at 30 yen, year-end at 35 yen).
For the next fiscal year, the Company plans to pay a full-year dividend of 60 yen per share (interim at 30 yen, year-end at 30 yen).
Internal reserves will be used to make strategic investments that will lead to future growth to reinforce the carrier-certified shops, and the functions of the IT systems to enhance their productivity and 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 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 the Prevention of Improper Use of Mobile Voice Communications Services, the Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People, the Guidelines for Consumer Protection Rules for the Telecommunications Business Act, 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 February 2018, amendments to the Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People went into effect and the Guidelines for Consumer Protection Rules for the Telecommunications Business Act were amended. In spite of proper responses the Company makes to these guidelines, any future amendment of laws and regulations relating to 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 280 stores in addition to 148 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 46% share of mobile phone subscribers as of the end of December 2017 (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, 2017		Year ended March 31, 2018	
	Net sales (million yen)	Component ratio (%)	Net sales (million yen)	Component ratio (%)
Commission income (NTT DOCOMO, INC.)	55,716	76.7	57,362	77.5
Total commission income	72,626	100.0	74,061	100.0

[Cost of purchased goods]

	Year ended March 31, 2017		Year ended March 31, 2018	
	Purchase of goods (million yen)	Component ratio (%)	Purchase of goods (million yen)	Component ratio (%)
Cost of purchased goods (NTT DOCOMO, INC.)	165,944	89.6	165,044	88.2
Total cost of purchased goods	185,268	100.0	187,227	100.0

<Risks relating to human resources>

⑨ Securing necessary personnel

In the labor market, there has been a serious shortage in the youthful workforce as a result of the declining birthrate, and the stable securing of necessary human capital is expected to become even more difficult. In the mobile phone sales business in which the Company conducts business activities, the increasingly diverse service offerings in addition to the long hours serving customers entailed by the further sophistication of the functions of smartphones, tablet devices, etc. have become a burden on the shop sales staff, and securing a stable workforce and enhancing the retention rate have become issues of increasing importance.

The Company to date has been making ongoing efforts to “workstyle reforms,” including the reduction of total working hours and promoting the taking of long-term leave, and as a result, has been improving the work-life balance of its employees while enhancing productivity.

Going forward, the Company will make further investments into human capital while at the same time engaging in management that focuses on the capacity development of its employees through the promotion of the company-wide education system, “CONEXIO College” and diversity by further encouraging the promotion of women.

However, if the Company is unable to secure employees including sales staff as planned and the retention rate deteriorates, 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 mobile BPO services using smartphones to corporate customers (outsourcing services such as mobile help desk and handset kitting services) 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. Non-consolidated Financial Statements

(1) Non-consolidated Balance Sheets

(Million yen)

	Previous fiscal year (March 31, 2017)	Current fiscal year (March 31, 2018)
Assets		
Current assets		
Cash and deposits	4,879	7,606
Accounts receivable - trade	45,343	48,934
Merchandise and finished goods	8,301	8,900
Raw materials and supplies	87	74
Prepaid expenses	751	781
Deferred tax assets	1,463	1,545
Accounts receivable - other	13,325	12,188
Deposits paid	134	215
Other	0	―
Allowance for doubtful accounts	(11)	(6)
Total current assets	74,275	80,239
Non-current assets		
Property, plant and equipment		
Buildings	4,743	5,049
Accumulated depreciation	(2,341)	(2,500)
Buildings, net	2,402	2,548
Structures	289	306
Accumulated depreciation	(96)	(109)
Structures, net	192	196
Machinery and equipment	9	9
Accumulated depreciation	(2)	(3)
Machinery and equipment, net	7	6
Tools, furniture and fixtures	4,105	4,312
Accumulated depreciation	(2,600)	(2,748)
Tools, furniture and fixtures, net	1,505	1,563
Land	52	52
Construction in progress	11	0
Total property, plant and equipment	4,170	4,368
Intangible assets		
Goodwill	1,745	1,621
Software	388	338
Software in progress	1	5
The right of carrier shop management	10,326	9,650
Other	11	10
Total intangible assets	12,472	11,626
Investments and other assets		
Investment securities	261	413
Shares of subsidiaries and associates	30	30
Long-term prepaid expenses	335	368
Lease and guarantee deposits	3,607	3,627
Other	183	171
Allowance for doubtful accounts	(82)	(70)
Total investments and other assets	4,335	4,541
Total non-current assets	20,978	20,536
Total assets	95,254	100,776

(Million yen)

	Previous fiscal year (March 31, 2017)	Current fiscal year (March 31, 2018)
Liabilities		
Current liabilities		
Accounts payable - trade	24,280	22,441
Accrued agency commission	8,395	9,673
Accounts payable - other	11,558	12,100
Accrued expenses	2,914	3,669
Income taxes payable	2,122	2,599
Accrued consumption taxes	497	591
Advances received	16	13
Deposits received	1,134	1,049
Provision for bonuses	3,324	3,412
Provision for directors' bonuses	30	21
Other	47	66
Total current liabilities	54,322	55,640
Non-current liabilities		
Provision for retirement benefits	4,554	4,888
Deferred tax liabilities	1,635	1,368
Asset retirement obligations	416	485
Other	307	219
Total non-current liabilities	6,914	6,961
Total liabilities	61,237	62,601
Net assets		
Shareholders' equity		
Capital stock	2,778	2,778
Capital surplus		
Legal capital surplus	3,180	580
Other capital surplus	6,598	4
Total capital surpluses	9,779	585
Retained earnings		
Legal retained earnings	5	113
Other retained earnings		
General reserve	2,469	2,469
Retained earnings brought forward	28,063	32,008
Total retained earnings	30,538	34,592
Treasury shares	(9,194)	(0)
Total shareholders' equity	33,902	37,956
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	114	218
Total valuation and translation adjustments	114	218
Total net assets	34,016	38,174
Total liabilities and net assets	95,254	100,776

(2) Non-consolidated Statements of Income

(Million yen)

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Net sales		
Net sales of goods	187,390	190,835
Commission income	72,626	74,061
Total net sales	260,016	264,897
Cost of sales		
Beginning goods	7,985	8,301
Cost of purchased goods	185,268	187,227
Total	193,253	195,529
Ending goods	8,317	8,898
Valuation loss on goods	16	(2)
Cost of goods sold	184,952	186,628
Agent fee	26,803	27,921
Total cost of sales	211,756	214,549
Gross profit	48,260	50,347
Selling, general and administrative expenses		
Directors' compensations	155	142
Salaries and allowances	10,864	11,082
Bonuses	1,194	1,196
Provision for bonuses	3,324	3,412
Provision for directors' bonuses	30	21
Retirement benefit expenses	654	575
Legal welfare expenses	3,358	3,442
Temporary staffing expense	1,785	2,393
Packing and delivery expenses	358	405
Promotion expenses	2,521	2,919
Communication expenses	577	585
Rents	4,150	4,214
Repair and maintenance	896	980
Business consignment expenses	1,237	1,268
Rent expenses	135	119
Depreciation	1,992	2,033
Amortization of goodwill	124	124
Other	4,920	5,222
Total selling, general and administrative expenses	38,282	40,139
Operating profit	9,978	10,207

(Million yen)

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Non-operating income		
Interest income	0	0
Dividend income	10	2
Support money of store move etc income	67	108
Other	49	45
Total non-operating income	127	156
Non-operating expenses		
Interest expenses	12	8
Loss on sales and retirement of non-current assets	27	45
Rent expenses on real estates	8	6
Other	10	10
Total non-operating expenses	58	70
Ordinary profit	10,046	10,293
Extraordinary income		
Gain on sales of non-current assets	0	1
Gain on sales of investment securities	—	0
Total extraordinary income	0	1
Extraordinary losses		
Loss on closing of stores	61	54
Loss on sales and retirement of non-current assets	34	19
Impairment loss	234	135
Other	—	9
Total extraordinary losses	330	218
Profit before income taxes	9,716	10,076
Income taxes - current	2,817	3,732
Income taxes - deferred	430	(394)
Total income taxes	3,247	3,338
Profit	6,469	6,738

(3) Statement of Changes in Shareholders' equity

Previous 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								
Transfer to other capital surplus from legal capital surplus								
Retirement 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		—			—
Transfer to other capital surplus from legal capital surplus		—			—
Retirement 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

Current fiscal year (From April 1, 2017 to March 31, 2018)

(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	28,063	30,538
Changes of items during period								
Dividends of surplus					108		(2,792)	(2,684)
Profit							6,738	6,738
Purchase of treasury shares								
Transfer to other capital surplus from legal capital surplus		(2,600)	2,600	—				
Retirement of treasury shares			(9,194)	(9,194)				
Net changes of items other than shareholders' equity								
Total changes of items during period	—	(2,600)	(6,594)	(9,194)	108	—	3,945	4,054
Balance at end of current period	2,778	580	4	585	113	2,469	32,008	34,592

	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)	33,902	114	114	34,016
Changes of items during period					
Dividends of surplus		(2,684)			(2,684)
Profit		6,738			6,738
Purchase of treasury shares	(0)	(0)			(0)
Transfer to other capital surplus from legal capital surplus		—			—
Retirement of treasury shares	9,194	—			—
Net changes of items other than shareholders' equity			104	104	104
Total changes of items during period	9,193	4,054	104	104	4,158
Balance at end of current period	(0)	37,956	218	218	38,174

(4) Non-consolidated Cash Flows

(Million yen)

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Cash flows from operating activities		
Profit before income taxes	9,716	10,076
Depreciation	1,992	2,033
Amortization of goodwill	124	124
Impairment loss	234	135
Increase (decrease) in allowance for doubtful accounts	(1)	(18)
Increase (decrease) in provision for bonuses	(313)	88
Increase (decrease) in provision for directors' bonuses	(3)	(9)
Increase (decrease) in provision for retirement benefits	445	333
Interest and dividend income	(10)	(2)
Interest expenses	12	8
Foreign exchange losses (gains)	-	1
Loss (gain) on sales of investment securities	-	(0)
Decrease (increase) in notes and accounts receivable - trade	616	(3,593)
Decrease (increase) in accounts receivable - other	1,483	1,132
Decrease (increase) in inventories	(289)	(584)
Increase (decrease) in notes and accounts payable - trade	(2,711)	(560)
Increase (decrease) in accounts payable - other	(1,837)	578
Increase (decrease) in accrued consumption taxes	(9)	93
Other, net	549	832
Subtotal	9,996	10,670
Interest and dividend income received	10	2
Interest expenses paid	(12)	(8)
Income taxes (paid) refund	(1,417)	(3,183)
Other, net	57	92
Net cash provided by (used in) operating activities	8,635	7,574
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,170)	(1,448)
Purchase of intangible assets	(153)	(141)
Proceeds from sales of investment securities	-	0
Payments for lease and guarantee deposits	(257)	(303)
Proceeds from collection of lease and guarantee deposits	120	138
Purchase of long-term prepaid expenses	(195)	(220)
Payment for transfer of business	(90)	-
Payments for transfer of business	(96)	(11)
Other, net	(59)	(92)
Net cash provided by (used in) investing activities	(1,904)	(2,079)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(2,500)	-
Purchase of treasury shares	-	(0)
Cash dividends paid	(2,305)	(2,684)
Other, net	-	(0)
Net cash provided by (used in) financing activities	(4,805)	(2,685)
Effect of exchange rate change on cash and cash equivalents	-	(1)
Net increase (decrease) in cash and cash equivalents	1,924	2,807
Cash and cash equivalents at beginning of period	3,088	5,013
Cash and cash equivalents at end of period	5,013	7,821