Note:This document is a translation of a part of the original Japanese version and provided for reference purposes only. In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail.

Non-consolidated Financial Results for the Year Ended March 31, 2019[Japanese GAAP]

April 26, 2019

Company name: CONEXIO Corporation
Code number: 9422
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President
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Stock exchange listing: Tokyo
URL: https://www.conexio.co.jp

Scheduled date of Annual General Meeting of Shareholders: June 25, 2019
Scheduled date of commencing dividend payments: June 26, 2019
Scheduled date of filing annual securities report: June 25, 2019
Availability of supplementary briefing material on annual financial results: Yes
Schedule of annual financial results briefing session: Yes (for institutional investors and analysts)

(Amounts of less than one million yen are rounded down)

1. Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2019 (April 01, 2018 to March 31, 2019)

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2019	263,925	(0.4)	10,277	0.7	10,539	2.4	6,921	2.7
March 31, 2018	264,897	1.9	10,207	2.3	10,293	2.5	6,738	4.2

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary profit to total assets ratio	Operating profit to net sales ratio
Fiscal year ended	Yen	Yen	%	%	%
March 31, 2019	154.72	-	17.2	10.4	3.9
March 31, 2018	150.62	-	18.7	10.7	3.9

(Reference) Equity in earnings (losses) of affiliated companies: Fiscal year ended March 31, 2019: ¥ - million
Fiscal year ended March 31, 2018: ¥ - million

(2) Non-consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
March 31, 2019	103,506	42,106	40.7	941.18
March 31, 2018	99,407	38,174	38.4	853.30

(Reference) Equity: As of March 31, 2019: ¥ 42,106 million
As of March 31, 2018: ¥ 38,174 million

(3) Non-consolidated 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 period
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
March 31, 2019	8,558	(2,108)	(2,909)	11,360
March 31, 2018	7,574	(2,079)	(2,685)	7,821

2. Dividends

	Annual dividends					Total dividends	Payout ratio	Dividends to net assets
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
March 31, 2018	-	30.00	-	35.00	65.00	2,907	43.2	8.1
March 31, 2019	-	30.00	-	30.00	60.00	2,684	38.8	6.7
Fiscal year ending March 31, 2020(Forecast)	-	30.00	-	30.00	60.00		-	

(Note) Breakdown of the year-end dividend for the fiscal year ended March 31, 2018 :
Ordinary dividend 60.00 yen
Commemorative dividend 5.00 yen (celebrating 20th company anniversary)

3. Non-consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2020 (April 01, 2019 to March 31, 2020)

The impact of the future business environment on our business results is unclear, and will be promptly disclosed as soon as they are reasonably calculated.

* Notes:

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

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatements: No

(2) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):	March 31, 2019:	44,737,938 shares	March 31, 2018:	44,737,938 shares
2) Total number of treasury shares at the end of the period:	March 31, 2019:	122 shares	March 31, 2018:	86 shares
3) Average number of shares during the period:	Fiscal Year ended March 31, 2019:	44,737,817 shares	Fiscal Year ended March 31, 2018:	44,737,910 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

○Contents of Appendix

1. Overview of operating results, etc. 1
(1) Overview of operating results for the fiscal year ended March 31, 2019 1
(2) Overview of financial position for the fiscal year ended March 31, 2019 3
(3) Outlook 4
(4) Basic Policy on Profit Allocation, and Dividend Payment for the Current and Next Terms 6
(5) Business Risks 6
2. Corporate Group 8
(1) Consumer Business 8
(2) Corporate Business 8
3. Non-consolidated Financial Statements 9
(1) Non-consolidated Balance Sheets 9
(2) Non-consolidated Statements of Income 11
(3) Statement of Changes in Shareholders' equity 13
(4) Non-consolidated Cash Flows 15

1. Overview of operating results, etc.

(1) Overview of operating results for the fiscal year ended March 31, 2019

(i) Operating results for the fiscal year ended March 31, 2019

During the fiscal year ended March 31, 2019, the Japanese economy continued on a moderate recovery trend with improvements in corporate earnings as well as the employment environment. On the other hand, given the concerns about the rising uncertainty in the overseas economies due to the effects of trade frictions, the outlook of the Japanese economy needs to be closely watched.
In the mobile phone market in which the Company conducts business activities, major telecom carriers, aiming to build long-term relationships with customers, have been expanding services that are in line with customer needs and strengthening their customer bases by increasing service members. Meanwhile, major changes that will affect the entire market are expected going forward as a result of the (scheduled) revision by the Ministry of Internal Affairs and Communications of the Telecommunications Business Act, which will incorporate simpler and easier-to-understand payment plans for mobile phones.
In such a business climate, despite the decrease in unit sales of handsets to 2,510,000 (down 7.4% year-on-year) due to the change in some of the product distribution flows, sales of smartphones remained robust. The Company made efforts to increase revenue by promoting continued use through the proposal of various services meeting customer needs, while revising the price of handsets, as well as expanding the Company's unique services for smartphones. While the Company bore the burden of investments into new initiatives to increase revenues such as securing personnel to teach smartphone lessons and strengthening the structure of mobile BPO services to corporate customers, the Company managed to report an increase in profit for the seventh consecutive term.
As a result, the Company's financial results for the fiscal year ended March 31, 2019 were 263,925 million yen in net sales (down 0.4%), 10,277 million yen in operating profit (up 0.7%), 10,539 million yen in ordinary profit (up 2.4%) and 6,921 million yen in profit (up 2.7%).

◆Financial results

(Million yen)

Account title	FY2017	FY2018	Year-on-year change (%)
Net sales	264,897	263,925	(0.4)
Operating profit	10,207	10,277	0.7
Ordinary profit	10,293	10,539	2.4
Profit	6,738	6,921	2.7

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's unique services "nexiplus" to meet the needs of smartphone users and strengthen the relationship with them.

In the Consumer Business, despite the decrease in unit sales of handsets due to the change in some of the product distribution flows, sales of smartphones remained robust. At the carrier-certified shops, in addition to increasing revenue through the revision of the price of handsets, efforts were made to improve customer satisfaction and encourage the continued use of various services by improving the quality of the smartphone lessons and increasing the frequency of the lessons, as well as expanding reservation frames for shop visits to shorten the customers' waiting time at the shops. For the secure, safe and comfortable smartphone life of customers, the Company began sales of security software for smartphones and renewed the Company's unique services for smartphones, "nexiplus," in an effort to raise the user satisfaction of its members.
As a result, the financial results of the Consumer Business were 244,587 million yen in net sales (down 0.4%) and 13,566 million yen in operating profit (up 7.5%).

◆Financial results

(Million yen)

Account title	FY2017	FY2018	Year-on-year change (%)
Net sales	245,534	244,587	(0.4)
Operating profit	12,625	13,566	7.5

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 to corporate customers (outsourcing services covering mobile help desk, handset set-up (kitting), etc.), prepaid cards to convenience stores, and IoT solutions.

In the Corporate Business, the Company steadily increased orders in the mobile BPO services, which is being further reinforced through the relocation and floor expansion of the mobile BPO center, while cultivating new customers by expanding the handling of security-related products and SNS for corporate customers. As for IoT solutions, the Company added security functions to the "Smart Ready IoT Solution Template," which is able to quickly and easily build IoT systems. The burden of these investments into new initiatives to increase revenues, as well as the impact of the revision in transaction terms of the sale of prepaid cards weighed down on the Corporate Business, resulting in decreases in both sales and profits.
As a result, the financial results of the Corporate Business were 19,337 million yen in net sales (down 0.1%) and 977 million yen in operating profit (down 38.6%).

◆Financial results

(Million yen)

Account title	FY2017	FY2018	Year-on-year change (%)
Net sales	19,362	19,337	(0.1)
Operating profit	1,591	977	(38.6)

(2) Overview of financial position for the fiscal year ended March 31, 2019

(i) Status of assets, liabilities and net assets

(Current assets)
Current assets increased by 3,900 million yen from the end of the previous fiscal year to 82,594 million yen. This was mainly due to the increase in cash and deposits by 3,480 million yen, the increase in accounts receivable-other by 725 million yen, the increase in notes and accounts receivable-trade by 351 million yen and the decrease in merchandise and finished goods by 678 million yen.

(Non-current assets)
Non-current assets increased by 198 million yen from the end of the previous fiscal year to 20,911 million yen. This was mainly due to the increase in deferred tax assets by 421 million yen, the increase in buildings by 318 million yen, the increase in lease and guarantee deposits by 228 million yen, the increase in tools, furniture and fixtures by 104 million yen, the decrease in the right of carrier shop management by 665 million yen, the decrease in goodwill by 122 million yen and the decrease in investment securities by 118 million yen.
As a result, total assets increased by 4,098 million yen from the end of the previous fiscal year to 103,506 million yen.

(Current liabilities)
Current liabilities decreased by 375 million yen from the end of the previous fiscal year to 55,264 million yen. This was mainly due to the decrease in accounts payable-trade by 2,165 million yen, the decrease in income taxes payable by 504 million yen, the increase in accrued agency commission by 1,933 million yen and the increase in provision for bonuses by 387 million yen.

(Non-current liabilities)
Non-current liabilities increased by 542 million yen from the end of the previous fiscal year to 6,135 million yen. This was mainly due to the increase in provision for retirement benefits by 364 million yen and the increase in asset retirement obligations by 184 million yen.
As a result, total liabilities increased by 167 million yen from the end of the previous fiscal year to 61,400 million yen.

(Net assets)
Net assets increased by 3,931 million yen from the end of the previous fiscal year to 42,106 million yen. This was mainly due to the increase as a result of the recognition of profit of 6,921 million yen and the decrease as a result of the dividend payment of 2,907 million yen.
As a result, the Company's equity ratio was 40.7%.

"Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) has been applied from the beginning of the fiscal year ended March 31, 2019. Accordingly, the comparative analysis with the previous fiscal year is made on the basis of figures after applying the new accounting standards retrospectively.

(ii) Status of cash flows
Cash and cash equivalents (hereinafter "cash") at the end of the fiscal year under review increased by 3,538 million yen from the end of the previous fiscal year to 11,360 million yen.

(Cash flows from operating activities)
Cash flows from operating activities resulted in a net inflow of 8,558 million yen (up 983 million yen year-on-year). This was mainly due to the increase factors including the recognition of profit before income taxes of 10,302 million yen, the recognition of depreciation of 2,086 million yen and the decrease in inventories by 739 million yen, exceeding the decrease factors including the increase in accounts receivable-other by 725 million yen.

(Cash flows from investing activities)
Cash flows from investing activities resulted in a net outflow of 2,108 million yen (up 28 million year-on-year). This was mainly due to the purchase of property, plant and equipment of 1,462 million yen.

(Cash flows from financing activities)
Cash flows from financing activities resulted in a net outflow of 2,909 million yen (up 223 million yen year-on-year). This was mainly due to cash dividends paid of 2,909 million yen.

(Reference) Changes in cash flow related indicators

	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2019
Equity ratio (%)	25.6	31.5	36.3	38.4	40.7
Market-value equity ratio (%)	48.1	53.7	81.4	102.1	60.3
Cash flow to interest-bearing debt ratio (%)	1.1	0.3	―	―	―
Interest coverage ratio (times)	170.9	263.5	716.3	907.8	4,164.6

(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
*The Company had no interest-bearing debt in the year ended March 31, 2017 and the year ended March 31, 2018 year ended March 31, 2019. Accordingly, the cash flow to interest-bearing debt ratio is not stated.
4. Interest coverage ratio: Cash flows from operating activities/interest payments

(3) Outlook

(i) Perception of the business environment

In the mobile phone market in which the Company conducts business activities, the Ministry of Internal Affairs and Communications announced the “Emergency Recommendation to Ensure Proper Mobile Services, etc.” and a revision of the “Telecommunications Business Act,” which incorporates simpler and easier-to-understand payment plans for mobile phones, is scheduled. In conjunction with these developments, major telecom carriers are deliberating the implementation of new payment plans that completely separate communication charges from handset fees. While communications charges will be lowered, handset prices are expected to go up, which, in turn, is expected to impact handset unit sales. Additionally, major changes in the business environment surrounding the Company are anticipated including the entry of the fourth generation of telecom carriers and the ensuing competition among telecom carriers to capture customers, increasing online sales of handsets and the start of pre-services for 5G, the next-generation telecommunications standard ahead of the commencement of commercial services in 2020. In the Corporate Business, innovations through state-of-the-art technology such as 5G, IoT and AI will change the way people work in the future, which is expected to give rise to greater utilization of corporate mobile solutions and the creation of opportunities for IoT use. Meanwhile, in the labor market, serious shortages in the youthful workforce as a result of the declining birthrate and a severe employment environment are expected to continue.

(ii) Basic policy of the medium-term management plan and the 5 business strategies for the fiscal year ending March 31, 2020

In the previous fiscal year (on May 1, 2018), the Company announced its medium-term management plan ending in the fiscal year ending March 31, 2021. (*Reference)

In the fiscal year ending March 31, 2020, which will be the second year of the plan, the Company, in light of the above business environment and the basic policy of the medium-term management plan, will focus on the following activities, which have been recognized as management issues.

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

The Company expects more opportunities for customers who did not have the chance before to visit the shops once the new payments plans are implemented. The Company will make efforts toward making the customers more aware of the value of the shops, which are their points of contact with the Company, by proposing smartphone uses that are suited to each customer, as well as improving services such as the smartphone lesson that will encourage ongoing shop visits.

<2. Achieve highly productive shop operations>

The Company is aware of the dissatisfaction of some customers due to the long waits and the lengthy time required to be served at the shops. Although the Company has been working to solve this issue by expanding the reservation frames and revising the customer service process, it intends to make further improvements. Additionally, by promoting the increased use of IT and improving the efficiency of shop operations, the Company will raise productivity while making more time to serve the customers in order to resolve their concerns.

<3. Evolve into a mobile solutions provider>

The Company will enhance its profitability in its mobile BPO services for corporate customers by offering services that meet diverse customer needs and further improving operational efficiency. Additionally, it will meet the increasing corporate need for work style reforms and telecommuting by upgrading these mobile-based solutions.

<4. Enhance IoT/5G solutions>

The Company will step up sales of “SmartReady IoT,” a service to support the adoption of IoT systems, released last year. Furthermore, the Company will continue with the in-house development of the IoT edge computing gateway, and aim to create 5G solutions with edge computing at the core.

<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 to shareholders at a payout ratio of about 40%. The Company will continue to uphold this basic policy.

・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, as well as growth investments such as reinforcing the functions of the IT systems to enhance the productivity and the energy-saving functions of the shops.
・Human capital strategy
While the Company has been carrying out measures including converting shop sales staff into regular employees, "workstyle reforms" and improving the work-life balance of its employees, it will make further investments in human capital by reforming the personnel system including the improvement of the benefits of its shop sales staff and raising their retention rate.
・ESG/CSR management
The Company will upgrade its initiatives in the fields of environment, society and governance in order to meet the expectations of its stakeholders.
(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.

In terms of the financial forecast, given that the impact of the business environment on the financial results of the Company is unclear, as stated above in the business environment, and that it is currently difficult to calculate proper and reasonable figures, the Company shall promptly disclose its financial forecasts, as soon as they are reasonably calculated.

(*Reference)
Basic policy of the medium-term management plan (Fiscal year ending March 31, 2019 to fiscal year ending March 31, 2021)
(Announced on May 1, 2018)

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.

・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

(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 ordinary dividend of 30 yen per share. As a result, the full-year dividend will be 60 yen per share (interim at 30 yen, year-end at 30 yen).
For the next fiscal year, while it is difficult to properly and reasonably forecast the financial results, the Company plans to maintain the full-year dividend of 60 yen per share (interim at 30 yen, year-end at 30 yen), under the policy of stable dividends to shareholders.

(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

The Ministry of Internal Affairs and Communications revised the “Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People” in February 2018 and the “Guidelines for Consumer Protection Rules of the Telecommunications Business Act” in September 2018. Furthermore, in January 2019, the “Emergency Recommendation to Ensure Proper Mobile Services, etc.” was announced, and a revision of the “Telecommunications Business Act,” which incorporates simpler and easier-to-understand payment plans for mobile phones and provisions to ensure a proper mobile phone agency business, is scheduled. In spite of the regular efforts made by the Company, as a mobile phone agency, to execute appropriate operations, 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 289 stores in addition to 146 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 2018 (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, 2018		Year ended March 31, 2019	
	Net sales (million yen)	Component ratio (%)	Net sales (million yen)	Component ratio (%)
Commission income (NTT DOCOMO, INC.)	57,362	77.5	60,337	77.8
Total commission income	74,061	100.0	77,542	100.0

[Cost of purchased goods]

	Year ended March 31, 2018		Year ended March 31, 2019	
	Purchase of goods (million yen)	Component ratio (%)	Purchase of goods (million yen)	Component ratio (%)
Cost of purchased goods (NTT DOCOMO, INC.)	165,044	88.2	159,664	88.5
Total cost of purchased goods	187,227	100.0	180,385	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 year after year 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 and the long hours of serving customers in addition to further sophistication of the functions of the 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 in “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 “nexiplus” 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)

	As of March 31,2018	As of March 31,2019
Assets		
Current assets		
Cash and deposits	7,606	11,086
Notes and accounts receivable - trade	48,934	49,285
Merchandise and finished goods	8,900	8,221
Raw materials and supplies	74	29
Prepaid expenses	781	788
Accounts receivable - other	12,188	12,914
Deposits paid	215	273
Other	-	0
Allowance for doubtful accounts	(6)	(6)
Total current assets	78,694	82,594
Non-current assets		
Property, plant and equipment		
Buildings	5,049	5,519
Accumulated depreciation	(2,500)	(2,651)
Buildings, net	2,548	2,867
Structures	306	331
Accumulated depreciation	(109)	(120)
Structures, net	196	210
Machinery and equipment	9	9
Accumulated depreciation	(3)	(3)
Machinery and equipment, net	6	5
Tools, furniture and fixtures	4,312	4,618
Accumulated depreciation	(2,748)	(2,950)
Tools, furniture and fixtures, net	1,563	1,668
Land	52	52
Construction in progress	0	0
Property, plant and equipment	4,368	4,804
Intangible assets		
Goodwill	1,621	1,499
Software	338	331
Software in progress	5	13
The right of carrier shop management	9,650	8,985
Other	10	9
Total intangible assets	11,626	10,839
Investments and other assets		
Investment securities	413	295
Shares of subsidiaries and associates	30	13
Long-term prepaid expenses	368	391
Deferred tax assets	176	597
Leasehold and guarantee deposits	3,627	3,856
Other	171	181
Allowance for doubtful accounts	(70)	(68)
Total investments and other assets	4,717	5,267
Total non-current assets	20,713	20,911
Total assets	99,407	103,506

(Million yen)

	As of March 31,2018	As of March 31,2019
Liabilities		
Current liabilities		
Accounts payable - trade	22,441	20,275
Accrued agency commission	9,673	11,607
Accounts payable - other	12,100	12,387
Accrued expenses	3,669	3,291
Income taxes payable	2,599	2,095
Accrued consumption taxes	591	767
Advances received	13	13
Deposits received	1,049	969
Provision for bonuses	3,412	3,800
Provision for directors' bonuses	21	23
Other	66	33
Total current liabilities	55,640	55,264
Non-current liabilities		
Provision for bonuses	-	24
Provision for directors' bonuses	-	11
Provision for retirement benefits	4,888	5,252
Asset retirement obligations	485	669
Other	219	176
Total non-current liabilities	5,592	6,135
Total liabilities	61,233	61,400
Net assets		
Shareholders' equity		
Capital stock	2,778	2,778
Capital surplus		
Legal capital surplus	580	580
Other capital surplus	4	4
Total capital surplus	585	585
Retained earnings		
Legal retained earnings	113	113
Other retained earnings		
General reserve	2,469	2,469
Retained earnings brought forward	32,008	36,022
Total retained earnings	34,592	38,606
Treasury shares	(0)	(0)
Total shareholders' equity	37,956	41,970
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	218	136
Total valuation and translation adjustments	218	136
Total net assets	38,174	42,106
Total liabilities and net assets	99,407	103,506

(2) Non-consolidated Statements of Income

(Million yen)

	For the fiscal year ended March 31,2018	For the fiscal year ended March 31,2019
Net sales		
Net sales of goods	190,835	186,382
Commission income	74,061	77,542
Total net sales	264,897	263,925
Cost of sales		
Beginning goods	8,301	8,900
Cost of purchased goods	187,227	180,385
Total	195,529	189,285
Ending goods	8,898	8,264
Valuation loss on goods	(2)	43
Cost of goods sold	186,628	181,064
Agent fee	27,921	30,980
Total cost of sales	214,549	212,044
Gross profit	50,347	51,880
Selling, general and administrative expenses		
Directors' compensations	142	144
Salaries and allowances	11,082	11,430
Bonuses	1,196	1,174
Provision for bonuses	3,412	3,824
Provision for directors' bonuses	21	34
Retirement benefit expenses	575	579
Legal welfare expenses	3,442	3,627
Temporary staffing expense	2,393	2,403
Packing and delivery expenses	405	539
Promotion expenses	2,919	2,821
Communication expenses	585	544
Rents	4,214	4,293
Repair and maintenance	980	943
Business consignment expenses	1,268	1,444
Rent expenses	119	124
Depreciation	2,033	2,086
Amortization of goodwill	124	124
Provision of allowance for doubtful accounts	-	0
Other	5,222	5,459
Total selling, general and administrative expenses	40,139	41,602
Operating profit	10,207	10,277

(Million yen)

	For the fiscal year ended March 31,2018	For the fiscal year ended March 31,2019
Non-operating income		
Interest income	0	0
Dividend income	2	4
Support money of store move etc income	108	154
Gain on sales of goods	-	116
Other	45	57
Total non-operating income	156	332
Non-operating expenses		
Interest expenses	8	2
Loss on sales and retirement of non-current assets	45	49
Rent expenses on real estates	6	3
Other	10	16
Total non-operating expenses	70	70
Ordinary profit	10,293	10,539
Extraordinary income		
Gain on sales of non-current assets	1	6
Gain on sales of investment securities	0	0
Other	-	0
Total extraordinary income	1	6
Extraordinary losses		
Loss on closing of stores	54	60
Loss on sales and retirement of non-current assets	19	80
Impairment loss	135	83
Loss on valuation of shares of subsidiaries and associates	-	16
Other	9	4
Total extraordinary losses	218	244
Profit before income taxes	10,076	10,302
Income taxes - current	3,732	3,764
Income taxes - deferred	(394)	(384)
Total income taxes	3,338	3,380
Profit	6,738	6,921

(3) Statement of Changes in Shareholders' equity

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

(Million yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
						General reserve	Retained earnings brought forward	
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

Current fiscal year (From April 1, 2018 to March 31, 2019)

(Million yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
						General reserve	Retained earnings brought forward	
Balance at beginning of current period	2,778	580	4	585	113	2,469	32,008	34,592
Changes of items during period								
Dividends of surplus							(2,907)	(2,907)
Profit							6,921	6,921
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	-	-	-	-	-	-	4,013	4,013
Balance at end of current period	2,778	580	4	585	113	2,469	36,022	38,606

	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	(0)	37,956	218	218	38,174
Changes of items during period					
Dividends of surplus		(2,907)			(2,907)
Profit		6,921			6,921
Purchase of treasury shares	(0)	(0)			(0)
Transfer to other capital surplus from legal capital surplus		-			-
Retirement of treasury shares		-			-
Net changes of items other than shareholders' equity			(82)	(82)	(82)
Total changes of items during period	(0)	4,013	(82)	(82)	3,931
Balance at end of current period	(0)	41,970	136	136	42,106

(4) Non-consolidated Cash Flows

(Million yen)

	For the fiscal year ended March 31,2018	For the fiscal year ended March 31,2019
Cash flows from operating activities		
Profit before income taxes	10,076	10,302
Depreciation	2,033	2,086
Amortization of goodwill	124	124
Impairment loss	135	83
Increase (decrease) in allowance for doubtful accounts	(18)	(1)
Increase (decrease) in provision for bonuses	88	412
Increase (decrease) in provision for directors' bonuses	(9)	12
Increase (decrease) in provision for retirement benefits	333	364
Interest and dividend income	(2)	(4)
Interest expenses	8	2
Foreign exchange losses (gains)	1	1
Loss (gain) on sales of investment securities	(0)	(0)
Decrease (increase) in notes and accounts receivable - trade	(3,593)	(351)
Decrease (increase) in accounts receivable - other	1,132	(725)
Decrease (increase) in inventories	(584)	739
Increase (decrease) in notes and accounts payable - trade	(560)	(231)
Increase (decrease) in accounts payable - other	578	136
Increase (decrease) in accrued consumption taxes	93	175
Other, net	832	(428)
Subtotal	10,670	12,696
Interest and dividend income received	2	4
Interest expenses paid	(8)	(2)
Income taxes (paid) refund	(3,183)	(4,253)
Other, net	92	112
Net cash provided by (used in) operating activities	7,574	8,558
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,448)	(1,462)
Purchase of intangible assets	(141)	(105)
Proceeds from sales of investment securities	0	0
Payments for leasehold and guarantee deposits	(303)	(574)
Proceeds from collection of leasehold and guarantee deposits	138	222
Purchase of long-term prepaid expenses	(220)	(225)
Payments for transfer of business	(11)	(16)
Other, net	(92)	53
Net cash provided by (used in) investing activities	(2,079)	(2,108)
Cash flows from financing activities		
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(2,684)	(2,909)
Other, net	(0)	(0)
Net cash provided by (used in) financing activities	(2,685)	(2,909)
Effect of exchange rate change on cash and cash equivalents	(1)	(1)
Net increase (decrease) in cash and cash equivalents	2,807	3,538
Cash and cash equivalents at beginning of period	5,013	7,821
Cash and cash equivalents at end of period	7,821	11,360