

Financial Results
for the Six Months Ended December 31, 2017
[Japanese GAAP]
(Non-consolidated)



February 2, 2018

Company name: WELLNET CORPORATION
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 2428
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 Scheduled date of filing quarterly securities report: February 14, 2018
 Scheduled date of commencing dividend payments: -
 Availability of supplementary briefing material on quarterly financial results: Available
 Schedule of quarterly financial results briefing session: Yes

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

1. Financial Results for the Six Months Ended December 31, 2017 (July 1, 2017 to December 31, 2017)

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

	Net sales		Operating income		Ordinary income		Net income	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2017	4,911	(7.3)	349	(56.3)	366	(60.6)	240	(62.0)
December 31, 2016	5,300	5.1	798	(27.5)	930	(16.3)	634	(14.7)

	Net income per share	Diluted net income per share
Six months ended	Yen	Yen
December 31, 2017	12.74	12.65
December 31, 2016	33.91	33.24

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2017	18,451	8,113	43.5	423.89
As of June 30, 2017	22,457	8,780	38.7	460.36

(Reference) Equity: As of December 31, 2017: ¥8,024 million
 As of June 30, 2017: ¥8,698 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended June 30, 2017	-	0.00	-	50.00	50.00
Fiscal year ending June 30, 2018	-	0.00	-	-	-
Fiscal year ending June 30, 2018 (Forecast)	-	-	-	50.00	50.00

(Note) Revision of dividends forecast from recently announced figures: No

3. Financial Results Forecast for the Fiscal Year Ending June 30, 2018 (July 1, 2017 to June 30, 2018)

At this moment, it is difficult to indicate the numerical forecast as there are many uncertain factors that may impact the actual financial results for the fiscal year ending June 30, 2018. The forecast will be announced immediately when it becomes possible to make reasonable forecast.

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income	
Full year	Million yen	%	Million yen	%	Million yen	%
	-	-	-	-	-	-

	Net income		Net income per share
Full year	Million yen	%	Yen
	-	-	-

(Note) Revision of financial results forecast from recently announced figures: No

* Notes:

- (1) Adoption of special accounting procedures for preparing quarterly financial statements: No
- (2) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 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 restatement: No
- (3) Total number of issued shares (common shares)
 - 1) Total number of issued shares at the end of the period (including treasury shares):
 - December 31, 2017: 19,400,000 shares
 - June 30, 2017: 19,400,000 shares
 - 2) Total number of treasury shares at the end of the period:
 - December 31, 2017: 469,556 shares
 - June 30, 2017: 505,158 shares
 - 3) Average number of shares during the period:
 - Six months ended December 31, 2017: 18,909,561 shares
 - Six months ended December 31, 2016: 18,695,076 shares

* These financial results are outside the scope of quarterly review procedures.

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1. Qualitative Information on Financial Results for the Period under Review

(1) Explanation of Business Results

During the six months ended December 31, 2017, the non-face-to-face payment market on which the Company's business is grounded have entered a period of significant change with the progression of FinTech and the emergence of various new services such as the sharing business, in addition to the spread of smartphones. Under these circumstances, the Company announced the "Medium Term Five-Year Management Plan (July 2016 - June 2021)" in August 2016 to actively and boldly take on new business opportunities, and has promoted "Response to the age of electronic money," "Promotion of Bus IT Promotion Solution Project" and "Service support for consumers from the business operator side" as priority measures.

For the six months ended December 31, 2017, the second year of the "Medium Term Five-Year Management Plan (July 2016 - June 2021)," the Company reported net sales of ¥4,911 million (down 7.3% year-on-year), operating income of ¥349 million (down 56.3% year-on-year), ordinary income of ¥366 million (down 60.6% year-on-year) and net income of ¥240 million (down 62.0% year-on-year).

These are mainly due to recording depreciation expenses related to the launch of *Shiharai-Hisho* and ongoing provision of additional features thereof, continuous development and the launch of Bus Mori!, as well as advertising expenses aimed at expanding these services, R&D investment as fraud risk prevention, and increased labor cost due to an increase in the number of employees. Rapid achievement of profitability in the above mentioned new products is our utmost priority.

Changes in Environment Surrounding the Company and Response Strategy = New Medium Term Five-Year Management Plan (July 2016 - June 2021)

The non-face-to-face payment market, the Company's main business domain, is expected to continue achieving a certain level of growth in the future. During the period of the Medium Term Five-Year Management Plan, rapid progression and practical application of FinTech is expected. Furthermore, we are pursuing a growth strategy aimed at achieving the target of ¥5.0 billion in ordinary income in the final fiscal year by actively making investment to turn the major changes in environment such as the utilization and application of IoT into new business opportunities.

A. Current status and future development of the "FinTech service," "*Shiharai-Hisho*" (released in August 2017)

Regarding "*Shiharai-Hisho*," a commercial service we launched with The Kansai Electric Power Co., Inc. as its first client, we are working to encourage primarily electric power and other public utility companies and financial institutions to sign up for the service.

While making proposals to electric power companies nationwide, we are working to increase the number of affiliated banks. Although affiliation with financial institutions is behind schedule primarily due to catering to biometric authentication requested by financial institutions as a new challenge, and coordination to help them understand about the concept of the business model, we will keep to the initial concept of this project and carefully foster this service into the one responsible for the next generation of WELLNET. With this delay in affiliation with financial institutions, promotion will be postponed to the fourth quarter and therefore the disclosure of the forecast for the 36th fiscal year is scheduled to be made after the third quarter.

B. Actively promoting Bus IT Promotion Project

We will expand “Bus Mori! SERIES,” which constitutes the core of Bus IT Promotion Solution. Regarding the smartphone application service “Bus Mori!” introduced in August 2016, the number of downloads was more than 80,000 thanks to sales promotion in cooperation with bus companies through initiatives such as sponsoring the FM radio program “BUSTABIST” revamped in October, and distributing pamphlets and leaflets. The number of routes on which the application can be purchased is also steadily increasing.

In addition to the “Smartphone Commutation Ticket” that we started providing in March 2017, through the provision of “Denshi Mogiri” and “coupon ticket” functions in January 2018, “Bus Mori!” is developing into an app with even more enhanced functions.

Further, we will expand the service to the operators of rural railways where IC cards have not been introduced, starting from Hokkaido Railway Company that decided to introduce the service from spring 2018.

We will earnestly foster “Bus Mori!,” a service that promotes a shift to paperless and electronic bus tickets, into the one responsible for the next generation of WELLNET, along with *Shiharai-Hisho*.

C. Interconnecting and visualizing internal work

We will promote initiatives to interconnect internal business systems to streamline and stabilize internal work. We will work to create a system in which indirect costs are well controlled even if the lineup of services diversify, and also aim for error-free business operations.

At the same time, we will enable proper management decision-making by visualizing the profit structure for each service and business operator, and aim for higher efficiency through onsite PDCA activities.

D. Stable system operation

We have improved the structure of our Sapporo Office based on the lessons learned from past failures. We unified the development styles of our Sapporo Office and also increased the number of Executive Officers to three, established a Quality Management Division, and actively recruited employees.

On the infrastructure front, we aim to achieve both stable operations through cloud-based services that can flexibly handle scale-up and distributed processing, and optimal cost performance.

E. Governance

The Company defines its *raison d’être* and action guidelines for employees in WELLNET Arete (Virtue) with a view to implementing effective governance. Although the product may change, we will penetrate the Company’s core action philosophy to employees.

(WELLNET Arete)

Contribute to society by continuously making “systems that would be handy to have.”

Proposing and spreading such “systems” to the whole world.

Distributing the income gained from this to employees, shareholders and our next investment.

(WELLNET Employee Arete)

I will avoid the pitfalls of stereotypes and think freely.

I will first think on my own, and then propose the best solution for all.

I will promote open discussions while “the one who should decide” will decide and the organization will put it into action.

I will always clearly define “who” will do “what” by “when.”

I will repeatedly validate the execution result and improve thereon.

I will make honest, accurate and quick reports.

I will conduct business after documenting services to be provided and compensation to be received.

I will hold rectitude as my motto and accept neither entertainment nor gifts.

F. Enhancement of activities contributing to local communities/employee benefits

We have provided support through WELLNET Scholarship to a lot of financially struggling students attending a technical college in Hokkaido. We have been encouraged by the many letters of gratitude we received from such students, enabling us to build wonderful relations with them.

In addition, “WELLNET Morino Childcare Center,” an in-office childcare center opened within the Sapporo Office as part of our effort to enhance employee benefits, helps to provide employees working in the Sapporo Office an environment where they can work with peace of mind and is expected to also lead to the acquisition of excellent human resources.

We have completed preparations for establishing CVC so that we can conduct joint research as necessary with universities, business entities, and companies with diverse knowledge and technologies, and also flexibly cooperate with companies engaged in the development and establishment of the payment peripheral platform, in order to respond to open innovation.

Guided by the management policy of actively and boldly taking on challenges of significantly expanding business opportunities, the Company decided to have Outside Directors make up the majority of the members of the Board of Directors to enhance transparency, and made a transition to a “company with audit and supervisory committee.”

Meanwhile, we also increased the number of Executive Officers to enhance our structure for achieving the target.

(2) Explanation of Financial Position

1) Status of assets, liabilities, and net assets

Total assets as of December 31, 2017 stood at ¥18,451 million. Current assets were ¥16,521 million. This mainly comprises cash and deposits of ¥12,577 million and securities of ¥1,999 million. Cash and deposits include ¥7,942 million of receiving agency deposit in money collection business, which is the money kept temporarily by the Company up to the predetermined date of transfer to operators in the following month. Non-current assets amounted to ¥1,929 million. This mainly comprises property, plant and equipment of ¥504 million, intangible assets of ¥939 million, and investments and other assets of ¥485 million.

Meanwhile, total liabilities amounted to ¥10,337 million. This mainly comprises receiving agency deposit of ¥7,942 million and accounts payable - trade of ¥556 million.

Total net assets amounted to ¥8,113 million. This mainly comprises shareholders' equity of ¥8,023 million.

2) Status of cash flows

Cash and cash equivalents (the “funds”) as of December 31, 2017 stood at ¥11,077 million. The status of cash flows and their contributing factors are as follows.

(Cash flows from operating activities)

Funds used in operating activities amounted to ¥3,142 million. The main factor for the decrease is a ¥3,438 million decrease in receiving agency deposit.

(Cash flows from investing activities)

Funds used in investing activities amounted to ¥189 million. Main factors for the decrease are purchase of securities of ¥3,499 million and payments into time deposits of ¥500 million, while the main factor for the increase is proceeds from redemption of securities of ¥4,000 million.

(Cash flows from financing activities)

Funds used in financing activities amounted to ¥939 million. The main factor for the decrease is cash dividends paid of ¥942 million.

(3) Explanation of Financial Results Forecast and Other Forward-looking Information

At this moment, it is difficult to indicate the numerical forecast as there are many uncertain factors that may impact the actual financial results for the fiscal year ending June 30, 2018. The forecast will be announced immediately when it becomes possible to make reasonable forecast.

2. Financial Statements and Primary Notes

(1) Balance Sheet

(Thousand yen)

	As of June 30, 2017	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	15,848,163	12,577,294
Accounts receivable - trade	457,038	571,544
Operating accounts receivable	233,052	138,839
Securities	2,999,842	1,999,883
Merchandise	2,677	2,201
Work in process	6,970	6,320
Supplies	1,553	1,732
Other	1,204,413	1,223,649
Total current assets	20,753,711	16,521,467
Non-current assets		
Property, plant and equipment	415,448	504,848
Intangible assets	829,571	939,580
Investments and other assets	459,094	485,195
Total non-current assets	1,704,114	1,929,625
Total assets	22,457,826	18,451,092
Liabilities		
Current liabilities		
Accounts payable - trade	464,637	556,177
Operating accounts payable	456,332	264,804
Receiving agency deposits	11,381,496	7,942,501
Income taxes payable	—	152,235
Provision for point certificates	—	80
Other	1,210,661	1,244,237
Total current liabilities	13,513,128	10,160,037
Non-current liabilities		
Provision for granting of shares	35,925	40,106
Asset retirement obligations	6,946	6,998
Long-term accounts payable - other	119,007	119,007
Other	2,567	11,074
Total non-current liabilities	164,446	177,186
Total liabilities	13,677,574	10,337,223

(Thousand yen)

	As of June 30, 2017	As of December 31, 2017
Net assets		
Shareholders' equity		
Capital stock	667,782	667,782
Capital surplus	3,509,216	3,509,216
Retained earnings	5,203,332	4,486,520
Treasury shares	(682,037)	(640,253)
Total shareholders' equity	8,698,293	8,023,265
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	129	1,151
Total valuation and translation adjustments	129	1,151
Subscription rights to shares	81,828	89,451
Total net assets	8,780,251	8,113,868
Total liabilities and net assets	22,457,826	18,451,092

(2) Statement of Income

(Six months ended December 31)

(Thousand yen)

	For the six months ended December 31, 2016	For the six months ended December 31, 2017
Net sales	5,300,496	4,911,278
Cost of sales	3,872,667	3,842,590
Gross profit	1,427,829	1,068,688
Selling, general and administrative expenses	629,559	719,535
Operating income	798,269	349,152
Non-operating income		
Interest income	1,759	1,920
Dividend income	—	42
Gain on reversal of provision for contingent loss	39,958	—
Refunded consumption taxes	88,436	11,864
Other	1,623	5,343
Total non-operating income	131,778	19,170
Non-operating expenses		
Interest expenses	0	—
Loss on investments in partnership	—	2,026
Other	—	3
Total non-operating expenses	0	2,029
Ordinary income	930,047	366,293
Income before income taxes	930,047	366,293
Income taxes - current	257,228	140,994
Income taxes - deferred	38,789	(15,657)
Total income taxes	296,018	125,336
Net income	634,029	240,956

(3) Statement of Cash Flows

(Thousand yen)

	For the six months ended December 31, 2016	For the six months ended December 31, 2017
Cash flows from operating activities		
Income before income taxes	930,047	366,293
Depreciation	122,606	145,640
Interest and dividend income	(1,759)	(1,962)
Interest expenses	0	—
Loss (gain) on investments in partnership	—	2,026
Decrease (increase) in operating accounts receivable	35,348	94,212
Decrease (increase) in notes and accounts receivable - trade	(20,479)	(114,505)
Decrease (increase) in inventories	2,676	(1,481)
Increase (decrease) in operating accounts payable	(130,680)	(191,528)
Increase (decrease) in notes and accounts payable - trade	18,480	91,540
Increase (decrease) in receiving agency deposits	2,378,879	(3,438,994)
Other, net	(16,741)	(160,810)
Subtotal	3,318,378	(3,209,570)
Interest and dividend income received	4,182	9,462
Interest expenses paid	0	—
Income taxes paid	(434,486)	57,613
Net cash provided by (used in) operating activities	2,888,074	(3,142,494)
Cash flows from investing activities		
Payments into time deposits	(1,000,000)	(500,000)
Purchase of securities	(2,999,160)	(3,499,551)
Proceeds from redemption of securities	4,000,000	4,000,000
Purchase of property, plant and equipment	(66,747)	(19,656)
Purchase of intangible assets	(245,451)	(144,909)
Proceeds from redemption of investment securities	300,000	—
Payments for investments in capital	(25,000)	(25,000)
Net cash provided by (used in) investing activities	(36,359)	(189,116)
Cash flows from financing activities		
Cash dividends paid	(742,663)	(942,643)
Proceeds from disposal of treasury shares resulting from exercise of subscription rights to shares	51,606	3,399
Proceeds from issuance of subscription rights to shares	22,426	—
Repayments of lease obligations	(115)	—
Net cash provided by (used in) financing activities	(668,747)	(939,244)
Net increase (decrease) in cash and cash equivalents	2,182,967	(4,270,854)
Cash and cash equivalents at beginning of period	14,958,039	15,348,149
Cash and cash equivalents at end of period	17,141,007	11,077,294

(4) Notes to Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Notes to substantial change in the amount of shareholders' equity)

There is no relevant information.

(Adoption of special accounting procedures for preparing quarterly financial statements)

There is no relevant information.

(Changes in accounting policies)

There is no relevant information.

(Changes in accounting estimates)

There is no relevant information.

(Significant subsequent events)

The Company resolved at the meeting of the Board of Directors held on February 2, 2018 to buy back its treasury shares in accordance with the provisions of Article 156 of the Companies Act, as applied mutatis mutandis pursuant to the provisions of Article 165, Paragraph 3 of the said Act.

1. Reason for the purchase of treasury shares

The Company aims to raise the level of its shareholder returns and improve capital efficiency.

2. Details of matters concerning the purchase

(1) Type of shares to be purchased

Common shares of the Company

(2) Total number of shares that can be purchased

Up to 470,000 shares

(Ratio to the total number of issued shares excluding treasury shares is 2.5%.)

(3) Total amount of the purchase price of the shares

Up to 500,000,000 yen

(4) Purchase period

From February 5, 2018 to June 26, 2018

(5) Method of purchase

Market purchase at the Tokyo Stock Exchange

(6) Other

The Company intends to hold the treasury shares purchased under this program and to allocate them for stock options, etc.