# Financial Results
# for the Fiscal Year Ended June 30, 2016
# [Japanese GAAP]
# (Non-consolidated)

August 5, 2016

Company name: WELLNET CORPORATION
Stock exchange listing: Tokyo Stock Exchange
Code number: 2428
URL: http://www.well-net.jp/
Representative: Kazuhiro Miyazawa, President and Representative Director
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Scheduled date of annual general shareholders' meeting: September 28, 2016
Scheduled date of commencing dividend payments: September 29, 2016
Scheduled date of filing securities report: September 29, 2016
Availability of supplementary briefing material on financial results: Available
Schedule of financial results briefing session: Yes

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

**1. Financial Results for the Fiscal Year Ended June 30, 2016 (July 1, 2015 to June 30, 2016)**

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

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---|---|---|---|---|---|---|---|---|
| Fiscal year ended | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| June 30, 2016 | 10,529 | 18.5 | 2,054 | 25.5 | 2,007 | 32.1 | 1,350 | 44.0 |
| June 30, 2015 | 8,888 | 16.9 | 1,637 | 11.1 | 1,520 | 2.1 | 938 | 2.7 |

| | Net income per share | Diluted net income per share | Return on equity | Ordinary income to total assets | Operating income to net sales |
|---|---|---|---|---|---|
| Fiscal year ended | Yen | Yen | % | % | % |
| June 30, 2016 | 71.91 | 70.22 | 16.3 | 9.9 | 19.5 |
| June 30, 2015 | 48.37 | 48.00 | 11.5 | 7.4 | 18.4 |

(Reference) Equity in earnings/loss of affiliates: Fiscal year ended June 30, 2016: ¥- million
Fiscal year ended June 30, 2015: ¥- million

(Note) The Company conducted a 2-for-1 share split effective July 1, 2016, based on the resolution of the meeting of the Board of Directors of the Company held on May 19, 2016. Net income per share and diluted net income per share are calculated as if the share split had occurred at the beginning of the prior fiscal year.

(2) Financial Position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| As of June 30, 2016 | 21,104 | 8,484 | 40.0 | 453.37 |
| As of June 30, 2015 | 19,667 | 8,218 | 41.6 | 428.10 |

(Reference) Equity: As of June 30, 2016: ¥8,446 million
As of June 30, 2015: ¥8,178 million

(Note) The Company conducted a 2-for-1 share split effective July 1, 2016, based on the resolution of the meeting of the Board of Directors of the Company held on May 19, 2016. Net assets per share is calculated as if the share split had occurred at the beginning of the prior fiscal year.

(3) Status of 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 year |
|---|---|---|---|---|
| Fiscal year ended | Million yen | Million yen | Million yen | Million yen |
| June 30, 2016 | 2,554 | 218 | (1,107) | 14,958 |
| June 30, 2015 | (712) | (762) | (933) | 13,293 |

**2. Dividends**

| | Annual dividends | | | | | Total dividends | Payout ratio | Dividend to net assets |
|---|---|---|---|---|---|---|---|---|
| | 1st quarter-end | 2nd quarter-end | 3rd quarter-end | Year-end | Total | | | |
| | Yen | Yen | Yen | Yen | Yen | Million yen | % | % |
| Fiscal year ended June 30, 2015 | - | 0.00 | - | 50.00 | 50.00 | 477 | 51.7 | 5.9 |
| Fiscal year ended June 30, 2016 | - | 0.00 | - | 80.00 | 80.00 | 745 | 55.6 | 9.1 |
| Fiscal year ending June 30, 2017 (Forecast) | - | - | - | 50.00 | 50.00 | | - | |

(Note) Breakdown of year-end dividend for the fiscal year ended June 30, 2016
Ordinary dividend ¥74.00 Special dividend ¥6.00

(Note) On July 1, 2016, the Company carried out a 2-for-1 share split. For the fiscal year ended June 30, 2016, the actual amount of dividend before such share split is presented.

**3. Financial Results Forecast for the Fiscal Year Ending June 30, 2017 (July 1, 2016 to June 30, 2017)**

(% indicates changes from the previous corresponding period.)

| | Net sales | | Operating income | | Ordinary income | |
|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % |
| First half | 5,450 | 8.1 | 600 – 800 | (45.5) – (27.3) | 580 – 780 | (47.7) – (29.7) |
| Full year | 11,100 | 5.4 | 1,000 – 1,500 | (51.3) – (27.0) | 950 – 1,450 | (52.7) – (27.8) |

| | Net income | | Net income per share |
|---|---|---|---|
| | Million yen | % | Yen |
| First half | 400 – 530 | (46.2) – (28.7) | 21.29 – 28.21 |
| Full year | 650 – 1,000 | (51.9) – (25.9) | 34.60 – 53.23 |

(Note) The Company conducted a 2-for-1 share split effective July 1, 2016. Net income per share of the financial results forecast is calculated based on the number of issued shares (excluding treasury shares) after the share split.

(Note) Financial results forecast for the fiscal year ending June 30, 2017 is presented in ranges, since it is possible to fluctuate depending on the progress of new projects. For details, please refer to the “1. Analysis of Business Results and Financial Position (1) Analysis of Business Results” on pages 2 to 7 of the attached document.

*** Notes:**

(1) Changes in accounting policies, changes in accounting estimates and retrospective restatement
1) Changes in accounting policies due to the revision of accounting standards: Yes
2) Changes in accounting policies other than 1) above: No
3) Changes in accounting estimates: No
4) Retrospective restatement: No

(Note) For details, please refer to "5. Financial Statements (5) Notes to Financial Statements (Changes to accounting policies)" on page 22 of the attached document.

(2) Total number of issued shares (common shares)
1) Total number of issued shares at the end of the period (including treasury shares):
June 30, 2016: 19,400,000 shares
June 30, 2015: 19,600,000 shares

2) Total number of treasury shares at the end of the period:
June 30, 2016: 769,958 shares
June 30, 2015: 495,308 shares

3) Average number of shares during the period:
Fiscal year ended June 30, 2016: 18,786,561 shares
Fiscal year ended June 30, 2015: 19,394,898 shares

(Note) The Company conducted a 2-for-1 share split effective July 1, 2016. Total number of issued shares (common shares) is calculated as if the share split had occurred at the beginning of the prior fiscal year.

* Presentation regarding the implementation status of the audit process

These financial results are outside the scope of audit process procedure under the Financial Instruments and Exchange Act. At the time of disclosure of these financial results, audit process procedures for the financial statements under the Financial Instruments and Exchange Act have not been completed.

* Explanation of the proper use of financial results forecast and other notes

Financial results forecast presented herein is based on the information available as at the date of the announcement of this material, and involves considerable uncertainties. Actual results may differ from the forecast due to changes in business conditions.

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## 1. Analysis of Business Results and Financial Position

### (1) Analysis of Business Results

The Japanese economy during the fiscal year ended June 30, 2016 has been on a moderate recovery trend. However, cautiousness in future outlook increased and consumer confidence showed signs of weakening and has remained lacking in strength. Meanwhile, in the EC market, such as product sales and service, where the Company's business is built on, the B to C market has continued growth and the C to C market has also showed expansion partly due to the effect of the spread of smartphones.

Under these circumstances, in order to achieve the goals stated in the "Medium Term Three-Year Management Plan (July 2013 - June 2016)" announced in August 2013, the Company has promoted and executed various policies.

In the Medium Term Three-Year Management Plan, the Company deems "the establishment of business schemes responsible for the next generation" and "*kaizen*" (expanding functions, stable system operation and cost performance improvement, in other words building a muscular corporate structure) as its concrete priority measures, and has been carrying out activities with a view to steadily executing such measures. As a result, for the fiscal year ended June 30, 2016, the final year of the "Medium Term Three-Year Management Plan (July 2013 - June 2016)," the Company recorded net sales of ¥10,529 million (up 18.5% year-on-year), operating income of ¥2,054 million (up 25.5% year-on-year), ordinary income of ¥2,007 million (up 32.1% year-on-year), and net income of ¥1,350 million (up 44.0% year-on-year). Return on equity (ROE) came to 16.3%. We were able to achieve the targets of "¥2.0 billion in operating income" and "ROE of 15%" in the final year as initially set out in the Medium Term Three-Year Management Plan.

[Verification by Themes for the Medium Term Three-Year Management Plan]

A. Establishment of business schemes responsible for the next generation

1) Bus IT Promotion Solution

Since commencing a service that allows customers to purchase tickets for inter-city highway buses at convenience stores for the first time in Japan in March 2001, more than 100 domestic bus operators have adopted it.

"Bus IT Promotion Solution" is the process of platformization that benefits both bus operators and users using state-of-the-art technology in a concrete form based on this system, operation and operating base. We developed and introduced systems that make what had been impossible happen by utilizing smartphones and tablets that are connected to the Internet, which have spread rapidly.

Specifically, we developed and introduced a system that maximizes sales opportunities by enabling customers to search for a bus bound for their destination by means of a smartphone application and purchase the service on the spot, and by selling bus tickets even after the bus leaving the starting station, and a system that materializes know-how of electronic authentication cultivated in the airline, J League and other businesses by means of inexpensive tablets installed in highway buses. The Company developed scheme that cannot be realized if individual bus operators developed it and provided a common platform thereof to bus operators, making it a variable cost for them. Although this scheme has yet to be widespread, we definitely feel there is a good response to it.

2) Development and provision of services for consumers

We pushed forward development of a smartphone application that provides a convenient concierge function to payers, in addition to payment collection for business operators, the core of our payment service. Although development was behind the original plan, we will be able to introduce the application during this fiscal year (35th fiscal year).

B. Kaizen (expanding functions, stable system operation and cost performance improvement, in other words building a muscular corporate structure)

1) Expanding functionality of our value transfer platform (expansion of existing services)

In addition to the current receiving agency and Receipt over the Internet (bank transfer service) services, we started services whereby cash can be received at convenient stores and as Amazon Gift Cards.

In addition, we responded as swiftly as possible to business opportunities that arouse during this fiscal year, including the “paperless” project in which business operators can reduce costs through digitization of the issuance of paper-based invoices without conducting system development and the expansion of electronic payment for university admission.

2) Stable system operation and improved cost performance

The Company’s system is becoming a social infrastructure. We tackled the important issue of stably operating the system; however, our efforts aimed at system enhancement and improvement of an internal structure were unable to keep pace with the higher-than-expected increase in traffic. As a result, a large-scale failure occurred in October 2015, causing great inconvenience to those involved. Based on the lessons we learned from the incident, we accelerated efforts to fundamentally reeducate employees, enhance the system and improve internal structure in response to the continuous increase in traffic.

Meanwhile, as stable operation is the top priority above all else, utilization of the “cost component analysis system,” which had been planned to be undertaken simultaneously, remained as a challenge for the future.

C. Activities Contributing to Local Communities

We established the ¥100 million WELLNET Scholarship for financially struggling students attending a technical college in Hokkaido and have provided approximately ¥7 million in aid to about 30 students by the end of March, 2016. We have been encouraged by the many letters of gratitude we received from students who received such aid, enabling us to build wonderful relations with schools.

Based on our belief that above anything else it is essential to continue activities that contribute to society, we further increased the amount of scholarship by ¥60 million in the fiscal year ended June 30, 2016. We will contribute continuously to local communities as a citizen.

[Changes in Environment Surrounding the Company and Response Strategy = New Medium Term Five-Year Management Plan]

The Company’s main business domain is the non-face-to-face payment market and its peripheral market, and we have improved our performance by know-how and a track record accumulated in these markets. As the non-face-to-face payment market is expected to continue achieving a certain level of growth in the future, we will pursue maintenance and evolution of our current business schemes. During the period of the New Medium Term Five-Year Management Plan, rapid progression and practical application of FinTech is expected. Furthermore, we will pursue 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 surrounding the Company such as the start of utilization and application of IoT into new business opportunities.

A. Releasing the WELLNET’s “FinTech service,” “*Shiharai-Hisho*” (scheduled for March 2017)

While the pillar of the Company’s business revenue is “real-time cash payment,” we have prepared a relevant scheme in light of the strong possibility that electronic money/cashless payment will grow further in the future. Thus we will release the electronic money service, “*Shiharai-Hisho,*” which we conceptualized in 2011, defined requirements and developed since then.

The smartphone application "*Shiharai-Hisho*" is an electronic money service managed on servers with functions including the following:

1) Electronic money can be charged in real time from an affiliated bank (can be charged also from other receiving agencies).
2) The reminder function of the "*Hisho*" prevents one from "carelessly forgetting" payment, thereby improving the collection rate.

From the perspective of the business operators who provide services and products, sales opportunities will not be missed as the payment is made simultaneously with the purchase. In addition, it will allow them to handle high-frequency, small-amount payments such as digital contents, which had not been justified due to high cost thus far. It will also allow them to handle one-click payments, for which needs have been increasing recently.

Furthermore, business operators in the domain of postpaid-type settlement will benefit from reduction in the invoice issuing costs as a result of a shift from conventional paper invoices to electronic invoices.

As for promotion of this service, the Company will vigorously promote the application by 1) appealing to the business operators who have already installed our payment system, 2) sales activities in collaboration with partner banks, 3) displaying this service as a new payment method on the "Payment Method Guidance Screen," which is used eight million times per month by consumers for payment purposes, and 4) aggressive promotion aimed at consumers.

As for organization, a dedicated "FinTech Innovation" team and the "Innovation Promotion Section" have been established within the Sapporo Office and the Sales Department, respectively, and they will swiftly solve issues with a sense of unity. The Company will foster "*Shiharai-Hisho*" into the leading service that would represent the next generation of the Company with strong conviction.

B. Actively promoting Bus IT Promotion Solution

We will actively develop and introduce "Bus Mori! SERIES" which constitutes the core of Bus IT Promotion Solution.

Until the previous fiscal year, we have introduced "Bus Mori! MONTA," an in-vehicle terminal for authentication service for inter-city highway buses, and "Bus Mori! NAVI," which allows users to search from a map and purchase tickets on the spot. This year we will introduce "Bus Mori! CONCIERGE," a smartphone application which would be considered a significant enhancement from NAVI (scheduled for August 2016).

The functions of "Bus Mori! CONCIERGE," a convenient application that can complete all the processes using a smartphone, are as follows.

1) Tickets of inter-city highway buses and airport limousine buses for over 100 bus routes already handled by the Company can be easily purchased using a smartphone.
2) If the ticket you regularly use is registered in "Immediate Purchase," the ticket can be purchased with just one click.
3) A ticket purchased in the "Immediate Purchase Mode" can be changed to the "next bus" with just one click (assuming usage at airports, etc.).
4) A ticket can also be purchased from the history list, etc.
5) The cancellation procedure can be also easily carried out with a smartphone.

Since electronic tickets displayed on the smartphone screen will also be treated as tickets in addition to the convenience store ticketing which the Company has already handled and they can be purchased with your smartphone 24 hours a day anytime, anywhere, user convenience will improve dramatically. The application is available in English and Chinese in addition to Japanese, anticipating the inbound demand.

As for authentication method of electronic tickets, in addition to "Bus Mori! MONTA," an in-vehicle tablet which is already in service, we will add to "Bus Mori! CONCIERGE" the function which would allow authentication by "*Denshi Mogiri,*" an electronic ticket collection, in case an "authentication terminal” is not available (scheduled for December 2016). With this addition, almost all the bus routes will be covered, thus leading to an expansion of the routs on which the “electronic tickets” are available.

Ultimately, it is essential to make as many consumers as possible to recognize, download, and use the application in order to make it profitable. The Company will aggressively promote “Bus Mori! CONCIERGE” which would allow consumers to “buy a highway bus ticket with your smartphone.”

C. Strengthening partnerships through open innovation

Significant changes are taking place around the Company’s business fields such as “IOT” and “FinTech,” thereby expanding business opportunities. To capture such opportunities, we will proactively implement measures without fearing the risks.

We will tackle such business opportunities by strengthening cooperation with universities, business entities, and companies with diverse knowledge and technologies. To be specific;

1) We will commence joint research with Hokkaido University with a view to developing and providing a safe and low-cost platform using blockchain technology. We will further deepen this relationship to produce concrete deliverables.
2) We will push ahead with joint research with the National Institute of Informatics to contribute to the bus business and regional revitalization by utilizing IT through such initiatives as utilization of big data, yield management, and stimulation of demand by visualization of fixed route buses.
3) We will cooperate with companies engaged in the development and establishment of the Company’s payment peripheral platform.
4) Concerning financial services in particular, it is important to strike a balance between “security” and “cost performance.” Since considerable research and development expenses are required to resolve this issue, we launched WELLNET Venture Capital, CVC aimed at investment in such fields.

D. Raising the level of Sapporo Office which handles the core functions of the system (Three years from July 2016)

Although we have improved the structure of our Sapporo Office based on the lessons learned from the large-scale failure which occurred in the previous fiscal year, we will carry out investment from this fiscal year with the aim of raising the level of the office more dynamically.

1) With the support of NTT Advanced Technology Corporation, we will dramatically enhance the skills of our Sapporo Office employees.

   We will raise the level of the employees through the so-called “ultimate OJT” in which our Sapporo Office will be staffed by more than 10 highly skilled engineers who will conduct on-site education in a team with the Company’s employees in processes ranging from system development to infrastructure design and operation, and by establishing a full-scale Quality Control Department.
2) Improvement of structure

   Until the previous fiscal year, the President had concurrently served as the Director in charge of the Sapporo Office. However, we will do everything we can to raise the level of the Office and achieve “stable operation” such as inviting personnel who have a high level of technical capabilities, knowledge and experience from NTT Advanced Technology Corporation, increasing the number of Executive Officers from one to three, and also appointing an advisor with sufficient knowledge.
3) Shift to cloud-based services

   Based on the judgment that the conventional method of infrastructure development cannot adequately respond to the rapidly increasing traffic, we will shift to cloud-based services that can flexibly handle scale-up and distributed processing in the next three years. Through this initiative, we will aim to achieve both stable operation and optimal cost performance.

E. Governance for proper corporate activities

The Company defines its raison d'etre and code of conduct for employees in WELLNET Arete (Virtue) with a view to implementing effective governance. Although the product may change, we will disseminate the Company's core action philosophy to employees.

[WELLNET Arete]
Contribute to society by continuing to create "systems that would be handy to have."
Promote our "works" to society at large.
Distribute the "benefit" gained from our business to employees, shareholders and as investments in our future.

[WELLNET Employee Arete]
I will steer clear of stereotypes and remain open minded.
I will first think independently, and make suggestions to maximize overall efficiency.
I will promote open discussion in support of management to facilitate decision-making and company-wide implementation of new ideas.
I will specify "who" will do "what" by "when."
I will verify my end product continually and endeavor to improve.
I will report with veracity, accuracy and speed.
I will transact business only after finalizing documentation and agreements regarding services and compensation.
I will maintain a principle of integrity and accept neither entertainment nor gifts.

(Outlook for the next fiscal year)

[Revenue Forecast and Return to Shareholders (Five Years from July 2016)]

The Company has returned 100% of profits to shareholders for three years until the fiscal year ended June 30, 2016. In addition, we were able to meet shareholders' expectations and gain their trust by achieving the ambitious targets of ¥2.0 billion in operating income and 15% in ROE.

For five years from this fiscal year, we will actively invest in a timely manner to respond appropriately to major changes in the environment and create a higher level of corporate value. In particular, in addition to the close relationship with the business operators providing services and products, we will start several smartphone applications that directly appeal to consumers from this fiscal year. It is likely that investment, for changing the line of business, in promotional activities aimed at recognition and spreading of such services, acquisition and training of human resources, improvement of system capability, and shift to cloud-based services, amount to a significant amount. Also, maximization of the investment effect calls for swiftly deciding in a timely manner and making bold investments. Furthermore, we will aggressively engage in M&As if they are judged to contribute to the growth of the income of the Company.

Meanwhile, we are making the company leaner by keeping an eye individually on the allocation of resources by the Company with zero-based budget, denying annual budget based on the previous year.

Furthermore, by visualizing and analyzing the cost component and revenue structure, which tend to become ambiguous with an increase in services handled and business operators, for each service and business operator, enabling us to make accurate and swift decisions, we will develop a structure that allows us to constantly conduct lean operation.

Given this active and timely investment policy, we expect operating income to be in the range of approximately ¥1.0 billion to ¥1.5 billion for the fiscal years ending June 30, 2017 and June 30, 2018. As a fruit of that, we set the ordinary income targets of ¥3.0 billion for the fiscal year ending June 30, 2019, three years from now, and ¥5.0

billion for the fiscal year ending June 30, 2021, five years from now. While the ordinary income of ¥3.0 billion three years from now and ¥5.0 billion five years from now are clear targets, as stated above, the Company has decided on the management policy of aggressively taking risks, including making large and swift investment in the field related to “FinTech service” in the face of large business opportunities currently available. The operating income for the fiscal years ending June 30, 2017 and June 30, 2018 may fluctuate depending on the progress of new projects.

Meanwhile, we will maintain a dividend payout ratio of 50% or more over the next three years from this fiscal year and pay a dividend of ¥50 even when dividend per share is less than ¥50, as consideration for shareholders in light of the management policy to aim for a higher level of corporate value by aggressively taking risks and in order to encourage shareholders to make long-term investment with peace of mind. This amount is 35% higher than the ¥37 dividend* for the fiscal year ended June 30, 2016 (excluding special dividend).

*The Company carried out a 2-for-1 share split on July 1, 2016.

In addition, we will do our best to give an accurate and in-depth explanation of the issues to be addressed and the progress to shareholders and institutional investors who make long-term investment.

Going forward, we will seek to become a company that is loved by our customers, employees and shareholders with high expectations as we work to improve our corporate value. We hope that you look forward to the challenges we take on in the future.

(2) Analysis of Financial Position

1) Status of assets, liabilities, and net assets

(Assets)

Current assets as of June 30, 2016 stood at ¥19,416 million. This mainly comprises cash and deposits of ¥14,458 million, securities of ¥2,999 million and operating accounts receivable of ¥529 million (receivables associated with the face value of PIN, in the PIN Online Sales Services). Cash and deposits include ¥9,566 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. Meanwhile, non-current assets amounted to ¥1,688 million. This mainly comprises tools, furniture and fixtures of ¥109 million, software of ¥530 million, and investment securities of ¥507 million. As a result, total assets amounted to ¥21,104 million.

(Liabilities)

Current liabilities as of June 30, 2016 stood at ¥12,398 million. This mainly comprises operating accounts payable of ¥1,043 million (receivables associated with the face value of PIN, in the PIN Online Sales Services) and receiving agency deposit of ¥9,566 million. Meanwhile, non-current liabilities amounted to ¥221 million. As a result, total liabilities amounted to ¥12,619 million.

(Net assets)

Net assets as of June 30, 2016 stood at ¥8,485 million. This mainly comprises shareholders’ equity of ¥8,446 million.

2) Status of cash flows

Cash and cash equivalents (the “funds”) as of June 30, 2016 stood at ¥14,958 million.

The status of cash flows as of June 30, 2016 and their contributing factors are as follows.

(Cash flows from operating activities)

Funds used in operating activities for the fiscal year ended June 30, 2016 amounted to ¥2,554 million. The main factor for the increase is income before income taxes of ¥2,007 million and ¥817 million increase in receiving agency deposits, while main factors for the decrease are ¥312 million decrease in operating accounts payable.

(Cash flows from investing activities)

Funds used in investing activities for the fiscal year ended June 30, 2016 amounted to ¥218 million. The main factors for the increase are proceeds from redemption of securities of ¥4,300 million and proceeds from withdrawal of time deposits of ¥2,200 million, while main factors for the decrease are purchase of securities of ¥4,897 million and payments into time deposits of ¥1,100 million.

(Cash flows from financing activities)

Funds used in financing activities for the fiscal year ended June 30, 2016 amounted to ¥1,108 million. The main factors for the decrease are purchase of treasury shares of ¥630 million and cash dividends paid of ¥476 million.

### (3) Basic Policy for Profit Sharing and Dividends for the Fiscal Year under Review and the Next Fiscal Year

We aim to pay a stable, high dividend to all of our shareholders in accordance with the policy to “return 100% of profit earned during the Medium Term Management Plan to shareholders” which was determined as our numerical target in the “Medium Term Three-Year Management Plan (July 2013 - June 2016)” announced in August 2013. Specifically, our policy is to return 100% of profit to shareholders by raising the dividend payout ratio during the Medium Term Management Plan to 50% (excluding extraordinary factors), and from income after income taxes, appropriate the entire balance after the dividend for purchase and retirement of treasury shares.

Regarding the dividend for the fiscal year ended June 30, 2016, as a result of taking into account the target dividend payout ratio of 50% stated in the Medium Term Management Plan based on non-consolidated net income, the year-end dividend was set at an ordinary dividend of ¥74 per share. Since treasury shares acquired during the fiscal year ended June 30, 2016 are expected to be less than the balance after income taxes, we decided to pay a year-end dividend of ¥80 including a special dividend of ¥6. Treasury shares acquired during the fiscal year ended June 30, 2016 (July 2015 to June 2016) were 263,000 shares or ¥629 million, and the total return was ¥1,374 million, or 101.7%.

With regard to the dividend for the next fiscal year, in accordance with the policy determined as our numerical target in the “New Medium Term Five-Year Management Plan (July 2016 - June 2021),” we will set the dividend payout ratio for the first three years at 50% or more (excluding extraordinary factors), and pay a dividend of ¥50 even when dividend per share is less than ¥50. This amount is 35% higher than the ¥37 dividend* for the fiscal year ended June 30, 2016 (excluding special dividend).

*The Company carried out a 2-for-1 share split on July 1, 2016.

On the basis of the net income forecast for the next fiscal year and by taking into account the stated target dividend payout ratio of 50% or more or dividend of ¥50, we are planning to pay ¥50 per share.

### (4) Risks of Business

Among matters listed in the financial statements relating to 1. Business Results, 3. Management Policy, and 4. Non-consolidated Financial Statements, the following matters could potentially have a significant impact on the decisions of the investors.

Forward-looking statements within the text are those identified by the company as of the date of announcement of the Financial Statement (August 5, 2016), and there is a possibly that our business performance and financial condition may be affected by the occurrence of events other than those listed below that are unforeseeable at this time.

1) Receiving agency deposit

The Multiple Payment Services provided by the Company transfers money to the customer business operator on a given date after temporarily storing the payment on behalf of the customer in a savings account managed separately under the Company's name. The money temporarily stored by the Company as a receiving agency is recognized on the balance sheet as both "cash and deposits" (assets) and "receiving agency deposits" (liabilities).

The payment stored in the receiving agency is managed separately from the Company's settlement funds in a checkable deposit account of a financial institution in order to protect the assets of the customers. To mitigate the risk of bad debt, the Company adopts a scheme to offset the fees (sales of the Company) when sending payment to the customer based on the contract. However, if financial administration polices related to pay off or the like are changed making the account no longer subject to deposit protection, there is a possibility that our business operations and performance will be affected by the changes to the storage methods of receiving agency payment or changes to the collection methods of our accounts receivable - trade.

2) Dependence on the infrastructure of the convenience store industry

In the Multiple Payment Services, the installation of kiosk terminals or POS registers that can support our Multiple Payment Services at a convenience store is a prerequisite for payment in convenience stores. Should convenience stores companies that have installed kiosk terminals change their methods for providing service, such as by changing terminals during the same period as other convenience store companies, there is a possibility that this will have an impact on our performance including incurring of cost to respond to such changes by the Company.

3) System failure and administrative risk

Because system shut down would be a grave problem for the Company, we take various measures, such as support for the system shut down, including duplexing of server equipment and communication line and securing emergency power supply, and having maintenance personnel present 24 hours a day.

However, if unexpected matters including natural disaster or accident occur, misconduct is perpetrated by unforeseen external intruders, or there is faulty operation by an employee, it may lead to reduced functionality, malfunction, or failure, which may affect our performance.

As our business is an important service which handles money including receipt of payments, management is strictly carried out to avoid administrative risk.

However, if an executive or employee of the Company were to make an error regardless of this strict management system, it could affect its performance by compromising trust in the Company.

4) The external environment

a. Intensifying competition

In the EC payment service market, competition is intensifying against the background of future growth expectations. Generally, intensified competition may have a negative impact on revenue. The Company is striving to ensure superiority by improving added value, but if this differentiation strategy of the Company cannot achieve results as planned, it may affect our performance.

b. Support for new payment services

In payment services, we intend to maintain our superiority by speedily developing and providing new products and services that matches the customer needs. However, when a completely new payment service emerges, or if we lag behind in developing or providing new services, it may affect our performance.

c. The e-commerce market

Our Multiple Payment Services plays an important role as a means of payment that enhances the customer's convenience in the EC business. Recently the EC market has been expanding continuously, and we predict that the e-commerce market using the Internet in particular will continue to expand. However, the history of the market is still short, and if unexpected events such as enhancement of legal rules concerning its use were to occur, it may lead to a decrease in number of users of our system, and may affect our performance in some ways.

d. Investment in origination and development of new businesses

For the Company to maintain the growth speed of its business revenue, it must originate and develop new businesses, and establish a new revenue base. We are planning to conduct active capital investment, research and development investment, and sales promotion activities for this purpose, but if this service does not progress in accordance with our plan and if we cannot achieve adequate results from our investments, it may affect our performance.

e. Dependence on specific customers

Under the risk awareness of the external environment detailed above, we are working on origination of new services and new businesses, and expansion of new customers. Yet at present, the majority of our overall sales are derived from our top three user customers. Therefore, if the sales of our major customers fall due to the sales trend of the major customers or for any other reasons, it may affect our performance.

f. Intellectual property rights

As it is difficult to grasp the status of intellectual property rights in its business field in a timely and complete manner, there is a possibility that the Company will infringe upon the intellectual property rights of a third party and be subject to claims for damages or injunction.

5) Management of personal information

When carrying out its businesses, the Company sometimes retains customer’s personal information. We expect that we will handle more personal information as our business continues to expand. We have acquired the PrivacyMark and Information Security Management System (ISMS) for handling of personal information, and pursuant to these, we have established an internal management system and heightened our awareness of information management.

Although the possibility that personal information will be leaked is considered extremely low due to these measures, if there was external leakage of information due to any cause in the future, we may be subject to claims for damages, and it may affect our performance due to losses of social trust.

6) Trend of the performance in prior years

a. Inconsistency in the business results disclosure due to corporate restructuring

In June 2009, the Company made Ichitaka Takahashi Corporation into its wholly-owned subsidiary through share exchange. Since year-end date served as the deemed acquisition date in this transaction, consolidated statements of income were not prepared for the fiscal year ended June 30, 2009. As the Company has been preparing consolidated statements of income from the fiscal year ended June 30, 2010, shares in Ichitaka Takahashi Corporation were wholly transferred as of the end of June, 2010. Furthermore, in July 2011, the Company made NANO Media Inc. into its subsidiary through tender offer, and started to prepare consolidated statements of income on this basis from the fiscal year ended June 30, 2012. However, since NANO Media Inc. ceased to be a consolidated subsidiary during the fiscal year ended June 30, 2013, the Company has not prepared consolidated statements of income since the fiscal year ended June 30, 2013.

As described above, profit/loss was presented on a consolidated basis for the fiscal year ended June 30, 2010 and the fiscal year ended June 30, 2012, posing a special circumstance of inconsistency in the business results disclosure.

b. Inconsistency in the business results disclosure due to changes in presentation of net sales to net amount

From the fiscal year ended June 30, 2011, the method for presenting net sales has been changed from gross amount presentation to net amount presentation, for PIN Online Sales Services (Note 1) in the Online Services

Business, and those of 95bus.com service (Note 2) in the Electronic Authentication Business. Furthermore, from the fiscal year ended June 30, 2012, the method for presenting net sales has been changed from gross amount presentation to net amount presentation, for PIN Online Sales Services as well as various application services based on receiving agency agreements. Both of these changes refer to change in the accounting procedure for net amount presentation after offsetting net sales by purchase cost, with no effect at gross profit stage, but causing a decrease in net sales. For the purpose of comparing the business results in prior years excluding effects of the aforementioned two inconsistencies, the following table illustrates the trend of net sales and gross profit of the Company on a non-consolidated basis based on the net amount presentation.

(Reference) Net sales and cost of sales in the past five years on a non-consolidated basis based on the net amount presentation

(Million yen)

| | Fiscal year ended June 2012 Actual | Fiscal year ended June 2013 Actual | Fiscal year ended June 2014 Actual | Fiscal year ended June 2015 Actual | Fiscal year ended June 2016 Actual |
|---|---|---|---|---|---|
| Net sales | 6,254 | 6,866 | 7,600 | 8,888 | 10,529 |
| Cost of sales | 4,070 | 4,505 | 5,068 | 6,200 | 7,483 |
| Gross profit | 2,184 | 2,361 | 2,532 | 2,688 | 3,045 |
| (Amounts offset) | (41,396) | (34,751) | (24,430) | (17,855) | (15,596) |

Note 1. PIN Online Sales Services uses a two-way communication system between our servers and POS registers/kiosk terminals installed in convenience stores to sell prepaid cards for mobile phones, international calls and electronic money online.

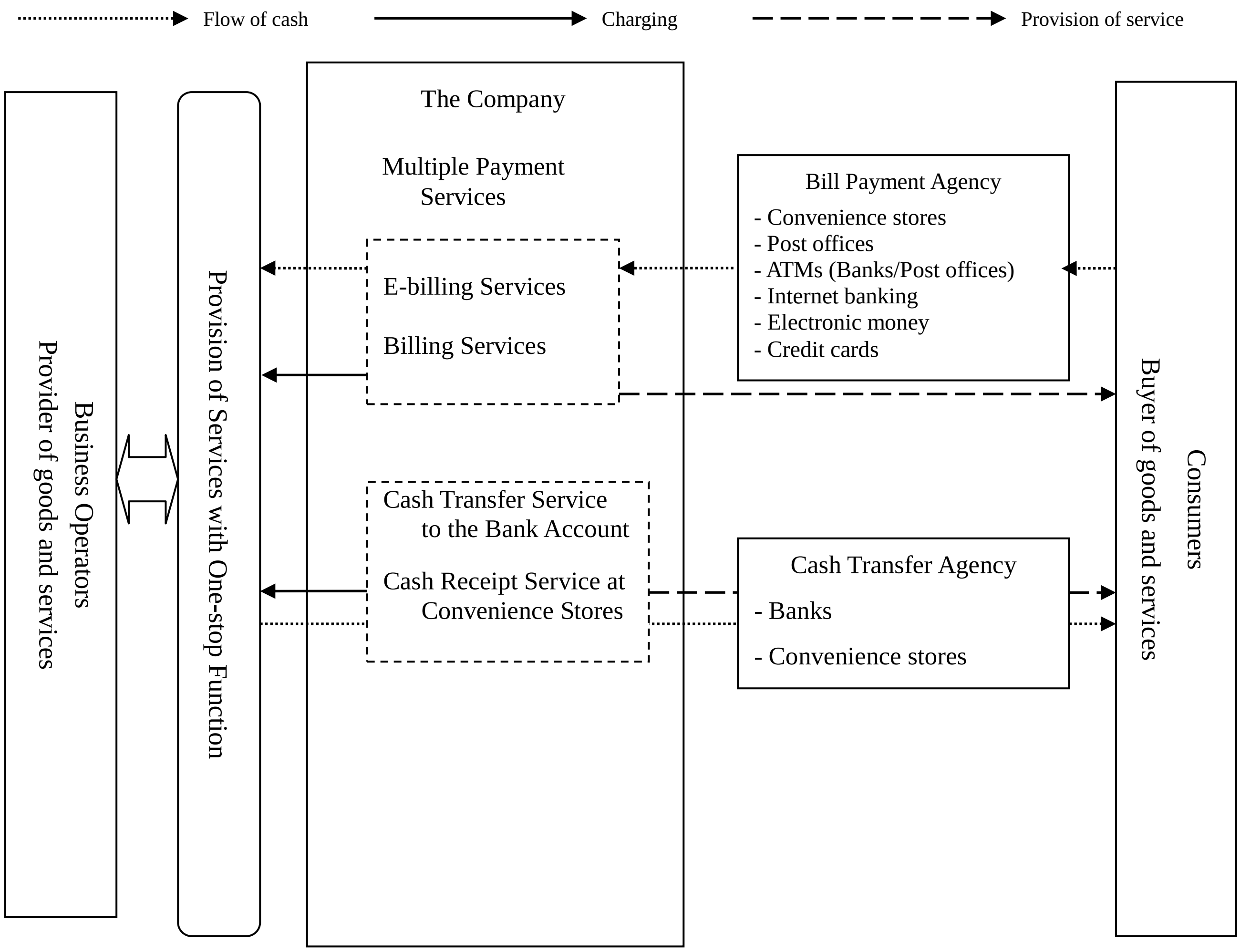
Note 2. 95bus.com is a service that offers one-stop access to authentication for ticket reservations, payment, ticketing and boarding of airport busses.

## 2. Corporate Group Overview

The Company conducts businesses centered on provision of payment and authentication services that connects business operators and consumers.

[Operations Diagram]

Operations diagram of the Company is as follows.



## 3. Management Policy

(1) Basic Policies on the Management of the Company

Action policies of the Company are as follows.
- 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.

Taking full advantage of our management resources, we will continue to develop and propose new value, and work on improving our stable and sustainable corporate value and contribution to society without changing this basic stance.

(2) Target Management Index (Management Index until the fiscal year ended June 30, 2016)

Management index, etc. for the future is presented in “1. Analysis of Business Results and Financial Position” on pages from 2 to 7.

We have set the numerical targets stated in the “Medium Term Three-Year Management Plan (July 2013 - June 2016)” announced in August 2013, as our management index.

1) Target operating income for the fiscal year ending June 30, 2016: ¥2.0 billion

In the final year of the Medium Term Management Plan, fiscal year ending June 30, 2016, we will unite and aim to reach an operating income of ¥2.0 billion (143% compared to the fiscal year ended June 30, 2013). We will continue to establish the foundation for further profit growth in the future.

As we do not have specific plans regarding M&As, it is excluded from our numerical target, but if there is an opportunity that we can expect the benefit of synergy, we will actively engage in it.

2) Returning 100% of profit to our shareholders during the Medium Term Management Plan

The payment business, where financial soundness is extremely important, is the core of the Company. We will maintain sufficient cash on hand as funds for maintaining our creditworthiness, expanding our core business and developing new business. Meanwhile, as we have already determined our financial soundness to be fully adequate as it is, we will make returns to all of our shareholders more dynamically.

A) Excluding extraordinary factors, we aim to raise the dividend payout ratio during the Medium Term Management Plan from the previous 33.3% to 50%, and return a stable, high yield to all of our shareholders.

B) We will return 100% of profit to shareholders by appropriating the entire balance after the dividend payment from income after income taxes for purchase and retirement of treasury shares. (Treasury shares currently held will be retired excluding treasury shares to respond to demand for sale of shares and for Board Benefit Trust (J-ESOP), and the use of newly purchased treasury shares shall be limited to those for stock options, etc. for achieving targets, with the remaining shares to be retired.)

3) Target ROE for the fiscal year ending June 30, 2016: 15%

While steadily promoting our growth strategy and further enhancing profitability, by increasing the dividend to shareholders and purchasing and retiring treasury shares, we aim to improve ROE and increase EPS. With these measures, we set our target ROE to 15% or more for the final year of our Medium Term Three-Year Management Plan (fiscal year ending June 30, 2016).

(3) The Company’s Medium to Long Term Management Strategy and Issues to be Addressed (Management Strategy and Issues to be Addressed until the fiscal year ended June 30, 2016)

Management strategies for and issues to be addressed in the future are presented in “1. Analysis of Business Results and Financial Position” on pages from 2 to 7.

The Company’s business domain is the EC market (and non-face-to-face payment market), which has maintained a soaring growth rate, and we have improved our performance by establishing highly competitive schemes in this market. However, business schemes have their own life cycles, and obsolescence cannot be avoided if we remain complacent, therefore we will continue to pursue further evolution of our current business schemes and work on development of new businesses.

We recognize the essence of IT to be systems that allow value producers to connect directly with end users and sell their products and services beyond the constraints of time and space. We will achieve continuous profit growth by keeping convenient, advanced payment platforms as our core, while expanding peripheral services.

Our two concrete priority measures are “the establishment of business schemes responsible for the next generation” and “*kaizen*” (expanding functions, stable system operation and cost performance improvement, in other words building a muscular corporate structure), and we will continue to concentrate our resources on these two measures.

1) Promoting innovative direct sales model for bus tickets in cooperation with bus operators

In March 2001, the Company put into commercial use for the first time in Japan a service that allowed customers to purchase reserved tickets for inter-city highway buses 24 hours a day at convenience stores. Since then we have made contracts with over 100 different bus operators, and now offer ticketing for several hundred bus routes.

In the electronic ticket field, we have accumulated results and knowledge of ticketing and authentication, starting with mobile phone airplane tickets. A large scale integrated model, which could be called the compilation of the acquired knowledge, was developed for inter-city highway buses. This model is an innovative service that can improve convenience for both bus operators and users dramatically, and part of it was released in December 2014. In the future, we will work on developing smartphone apps that can further improve the convenience of consumers. Based on our trust relationship with the bus operators cultivated over many years, we will work to expand applicable routes and popularization of smartphone apps.

2) Developing and providing services for consumers

The core of our payment service is the sales payment collection model for business operators, but by providing a convenient concierge function as a smartphone application in addition to this, we will develop an agency service for consumers, who will be making payments.

3) Expanding functionality of our value transfer platform (expansion of existing services)

In the receiving agency service and payment agency service, which are our core service, by expanding the methods we provide in line with the changing times, we will continue our evolution to be a more convenient platform.

4) Stable system operation and improved cost performance

The amount of data processed by our data centers has increased dramatically over the past few years. As real time processing is a major feature of our services, we recognize stable operation of the system to be extremely important.

We will work on establishing an internal structure and training system to simultaneously realize stable operation and operating cost reduction as priority issues at our Sapporo Office. Specifically, based on the capital investment efficiency and cost measurement for each service visualized in the “cost component analysis system,” we will promote automation and efficiency of operations.

(4) Other Important Matters on Management of the Company

There is no relevant information.

## 4. Basic Principle on the Selection of Accounting Standards

The Company's policy, for the time being, is to prepare the financial statements in accordance with J-GAAP, in consideration of the comparability of financial statements over time as well as between companies.

With respect to the adoption of IFRS, the Company will make decision as appropriate, in view of the circumstances both in Japan and abroad.

## 5. Financial Statements

### (1) Balance Sheet

(Thousand yen)

| | As of June 30, 2015 | As of June 30, 2016 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 13,293,918 | 14,458,084 |
| Accounts receivable - trade | 464,908 | 526,603 |
| Operating accounts receivable | 725,439 | 529,068 |
| Securities | 2,999,733 | 2,999,229 |
| Merchandise | 2,741 | 2,649 |
| Work in process | 5,509 | 9,051 |
| Supplies | 1,816 | 1,653 |
| Prepaid expenses | 22,127 | 22,194 |
| Deferred tax assets | 25,664 | 46,833 |
| Other | 449,045 | 820,994 |
| Total current assets | 17,990,905 | 19,416,363 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings | 248,866 | 247,356 |
| Accumulated depreciation | (114,158) | (121,508) |
| Buildings, net | 134,708 | 125,848 |
| Structures | 9,779 | 9,779 |
| Accumulated depreciation | (8,742) | (8,864) |
| Structures, net | 1,037 | 915 |
| Tools, furniture and fixtures | 654,588 | 592,306 |
| Accumulated depreciation | (509,584) | (482,452) |
| Tools, furniture and fixtures, net | 145,003 | 109,854 |
| Land | 136,266 | 136,266 |
| Leased assets | 8,102 | 8,102 |
| Accumulated depreciation | (6,840) | (8,012) |
| Leased assets, net | 1,262 | 89 |
| Construction in progress | 19,701 | 38,746 |
| Total property, plant and equipment | 437,979 | 411,721 |
| Intangible assets | | |
| Trademark right | 1,015 | 844 |
| Software | 432,416 | 530,268 |
| Total intangible assets | 433,431 | 531,113 |
| Investments and other assets | | |
| Investment securities | 509,095 | 507,521 |
| Long-term prepaid expenses | 53,179 | 41,670 |
| Investments in capital | - | 25,000 |
| Guarantee deposits | 49,014 | 48,562 |
| Deferred tax assets | 100,438 | 99,702 |
| Other | 93,342 | 23,244 |
| Total investments and other assets | 805,070 | 745,701 |
| Total non-current assets | 1,676,481 | 1,688,536 |
| Total assets | 19,667,387 | 21,104,899 |

(Thousand yen)

| | As of June 30, 2015 | As of June 30, 2016 |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 434,101 | 555,037 |
| Operating accounts payable | 1,356,850 | 1,043,952 |
| Lease obligations | 1,365 | 115 |
| Accounts payable - other | 185,486 | 283,858 |
| Accrued expenses | 10,928 | 18,024 |
| Income taxes payable | 351,350 | 433,632 |
| Advances received | 3,805 | 4,943 |
| Deposits received | 204,524 | 483,782 |
| Receiving agency deposits | * 8,732,688 | * 9,566,090 |
| Other | 3,899 | 8,850 |
| Total current liabilities | 11,285,000 | 12,398,289 |
| Non-current liabilities | | |
| Lease obligations | 115 | - |
| Provision for granting of shares | 25,314 | 31,240 |
| Asset retirement obligations | 6,745 | 6,845 |
| Long-term accounts payable - other | 119,007 | 119,007 |
| Provision for contingent loss | - | 64,002 |
| Other | 12,940 | - |
| Total non-current liabilities | 164,123 | 221,094 |
| Total liabilities | 11,449,123 | 12,619,384 |
| Net assets | | |
| Shareholders’ equity | | |
| Capital stock | 667,782 | 667,782 |
| Capital surplus | | |
| Legal capital surplus | 3,509,216 | 3,509,216 |
| Total capital surplus | 3,509,216 | 3,509,216 |
| Retained earnings | | |
| Legal retained earnings | 22,010 | 22,010 |
| Other retained earnings | | |
| Reserve for special depreciation | 6,117 | 4,695 |
| General reserve | 3,160,000 | 3,160,000 |
| Retained earnings brought forward | 1,463,537 | 2,076,740 |
| Total retained earnings | 4,651,664 | 5,263,446 |
| Treasury shares | (650,078) | (993,464) |
| Total shareholders’ equity | 8,178,584 | 8,446,981 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | 202 | (593) |
| Total valuation and translation adjustments | 202 | (593) |
| Subscription rights to shares | 39,475 | 39,127 |
| Total net assets | 8,218,263 | 8,485,515 |
| Total liabilities and net assets | 19,667,387 | 21,104,899 |

## (2) Statements of Income

(Thousand yen)

| | For the fiscal year ended June 30, 2015 | For the fiscal year ended June 30, 2016 |
|---|---|---|
| Net sales | | |
| Total net sales | 8,888,769 | 10,529,005 |
| Cost of sales | | |
| Total cost of sales | 6,200,113 | 7,483,623 |
| Gross profit | 2,688,656 | 3,045,382 |
| Selling, general and administrative expenses | 1,050,721 | 990,515 |
| Operating income | 1,637,934 | 2,054,867 |
| Non-operating income | | |
| Interest income | 1,685 | 1,795 |
| Interest on securities | 18,088 | 10,421 |
| Dividend income | 83 | 802 |
| Other | 3,633 | 4,154 |
| Total non-operating income | 23,491 | 17,174 |
| Non-operating expenses | | |
| Interest expenses | 108 | 29 |
| Litigation expenses | 25,000 | - |
| Listing-related expenses | 6,000 | - |
| Consumption taxes for prior periods | 109,100 | 64,002 |
| Other | 1,022 | 71 |
| Total non-operating expenses | 141,231 | 64,103 |
| Ordinary income | 1,520,194 | 2,007,938 |
| Income before income taxes | 1,520,194 | 2,007,938 |
| Income taxes - current | 595,819 | 694,172 |
| Income taxes for prior periods | (36,280) | (17,033) |
| Income taxes - deferred | 22,534 | (20,078) |
| Total income taxes | 582,073 | 657,061 |
| Net income | 938,121 | 1,350,877 |

(3) Statement of Changes in Equity

Fiscal year ended June 30, 2015 (from July 1, 2014 to June 30, 2015)

(Thousand yen)

| | Shareholders' equity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Capital surplus | | Retained earnings | | | | |
| | | | | | Other retained earnings | | | |
| | Capital stock | Legal capital surplus | Total capital surplus | Legal retained earnings | Reserve for special depreciation | General reserve | Retained earnings brought forward | Total retained earnings |
| Balance at beginning of current period | 667,782 | 3,509,216 | 3,509,216 | 22,010 | 7,158 | 3,160,000 | 1,416,722 | 4,605,891 |
| Changes of items during period | | | | | | | | |
| Reversal of reserve for special depreciation | | | | | (1,431) | | 1,431 | - |
| Increase in reserve for special depreciation from changes in tax rate | | | | | 390 | | (390) | - |
| Dividends of surplus | | | | | | | (457,208) | (457,208) |
| Net income | | | | | | | 938,121 | 938,121 |
| Purchase of treasury shares | | | | | | | | - |
| Disposal of treasury shares | | | | | | | (4,019) | (4,019) |
| Retirement of treasury shares | | | | | | | (431,119) | (431,119) |
| Net changes of items other than shareholders' equity | | | | | | | | |
| Total changes of items during period | - | - | - | - | (1,041) | - | 46,814 | 45,773 |
| Balance at end of current period | 667,782 | 3,509,216 | 3,509,216 | 22,010 | 6,117 | 3,160,000 | 1,463,537 | 4,651,664 |

| | Shareholders' equity | | Valuation and translation adjustments | | Subscription rights to shares | 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 | (626,753) | 8,156,136 | - | - | 38,506 | 8,194,642 |
| Changes of items during period | | | | | | |
| Reversal of reserve for special depreciation | | - | | | | - |
| Increase in reserve for special depreciation from changes in tax rate | | - | | | | - |
| Dividends of surplus | | (457,208) | | | | (457,208) |
| Net income | | 938,121 | | | | 938,121 |
| Purchase of treasury shares | (464,938) | (464,938) | | | | (464,938) |
| Disposal of treasury shares | 10,493 | 6,473 | | | | 6,473 |
| Retirement of treasury shares | 431,119 | - | | | | - |
| Net changes of items other than shareholders' equity | | | 202 | 202 | 969 | 1,172 |
| Total changes of items during period | (23,324) | 22,448 | 202 | 202 | 969 | 23,620 |
| Balance at end of current period | (650,078) | 8,178,584 | 202 | 202 | 39,475 | 8,218,263 |

Fiscal year ended June 30, 2016 (from July 1, 2015 to June 30, 2016)

(Thousand yen)

| | Shareholders' equity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Capital surplus | | Retained earnings | | | | |
| | | | | | Other retained earnings | | | |
| | Capital stock | Legal capital surplus | Total capital surplus | Legal retained earnings | Reserve for special depreciation | General reserve | Retained earnings brought forward | Total retained earnings |
| Balance at beginning of current period | 667,782 | 3,509,216 | 3,509,216 | 22,010 | 6,117 | 3,160,000 | 1,463,537 | 4,651,664 |
| Changes of items during period | | | | | | | | |
| Reversal of reserve for special depreciation | | | | | (1,529) | | 1,529 | |
| Increase in reserve for special depreciation from changes in tax rate | | | | | 107 | | (107) | |
| Dividends of surplus | | | | | | | (477,617) | (477,617) |
| Net income | | | | | | | 1,350,877 | 1,350,877 |
| Purchase of treasury shares | | | | | | | | |
| Disposal of treasury shares | | | | | | | (35,571) | (35,571) |
| Retirement of treasury shares | | | | | | | (225,906) | (225,906) |
| Net changes of items other than shareholders' equity | | | | | | | | |
| Total changes of items during period | | | | | (1,421) | | 613,203 | 611,782 |
| Balance at end of current period | 667,782 | 3,509,216 | 3,509,216 | 22,010 | 4,695 | 3,160,000 | 2,076,740 | 5,263,446 |

| | Shareholders' equity | | Valuation and translation adjustments | | Subscription rights to shares | 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 | (650,078) | 8,178,584 | 202 | 202 | 39,475 | 8,218,263 |
| Changes of items during period | | | | | | |
| Reversal of reserve for special depreciation | | | | | | |
| Increase in reserve for special depreciation from changes in tax rate | | | | | | |
| Dividends of surplus | | (477,617) | | | | (477,617) |
| Net income | | 1,350,877 | | | | 1,350,877 |
| Purchase of treasury shares | (630,284) | (630,284) | | | | (630,284) |
| Disposal of treasury shares | 60,992 | 25,420 | | | | 25,420 |
| Retirement of treasury shares | 225,906 | | | | | |
| Net changes of items other than shareholders' equity | | | (1,314) | (1,314) | (348) | (1,662) |
| Total changes of items during period | (343,385) | 268,396 | (1,314) | (1,314) | (348) | 266,733 |
| Balance at end of current period | (993,464) | 8,446,981 | (1,111) | (1,111) | 39,127 | 8,484,996 |

## (4) Statement of Cash Flows

(Thousand yen)

| | For the fiscal year ended June 30, 2015 | For the fiscal year ended June 30, 2016 |
|---|---|---|
| Cash flows from operating activities | | |
| Income before income taxes | 1,520,194 | 2,007,938 |
| Depreciation | 219,325 | 207,291 |
| Interest and dividend income | (19,857) | (13,020) |
| Interest expenses | 108 | 29 |
| Decrease (increase) in operating accounts receivable | 120,144 | 196,371 |
| Decrease (increase) in notes and accounts receivable - trade | (21,171) | (61,695) |
| Decrease (increase) in inventories | (4,056) | (3,288) |
| Increase (decrease) in operating accounts payable | (258,213) | (312,897) |
| Increase (decrease) in notes and accounts payable - trade | 99,477 | 134,300 |
| Increase (decrease) in receiving agency deposits | (1,704,190) | 817,845 |
| Other, net | (178,389) | 181,801 |
| Subtotal | (226,628) | 3,154,676 |
| Interest and dividend income received | 31,564 | 17,852 |
| Interest expenses paid | (118) | (29) |
| Income taxes paid | (517,401) | (618,014) |
| Net cash provided by (used in) operating activities | (712,583) | 2,554,484 |
| Cash flows from investing activities | | |
| Purchase of securities | (4,298,587) | (4,897,008) |
| Proceeds from redemption of securities | 3,400,000 | 4,300,000 |
| Purchase of property, plant and equipment | (52,156) | (29,239) |
| Purchase of intangible assets | (105,535) | (230,512) |
| Payments into time deposits | (1,100,000) | (1,100,000) |
| Proceeds from withdrawal of time deposits | 1,100,000 | 2,200,000 |
| Purchase of investment securities | (6,106) | - |
| Proceeds from redemption of investment securities | 300,000 | - |
| Payments for investments in capital | - | (25,000) |
| Net cash provided by (used in) investing activities | (762,386) | 218,239 |
| Cash flows from financing activities | | |
| Purchase of treasury shares | (464,938) | (630,284) |
| Repayments of long-term loans payable | (10,000) | - |
| Repayments of lease obligations | (1,319) | (1,365) |
| Cash dividends paid | (457,550) | (476,686) |
| Net cash provided by (used in) financing activities | (933,808) | (1,108,336) |
| Net increase (decrease) in cash and cash equivalents | (2,408,777) | 1,664,387 |
| Cash and cash equivalents at beginning of period | 15,702,429 | 13,293,652 |
| Cash and cash equivalents at end of period | 13,293,652 | 14,958,039 |

## (5) Notes to Financial Statements

### (Notes on going concern assumption)

There is no relevant information.

### (Changes to accounting policies)

The Company, in accordance with the revision of the Corporation Tax Act, changed the depreciation method from the declining-balance method to the straight-line method for accessories to buildings and structures acquired on or after April 1, 2016 by applying “Practical Solution on a change in depreciation method due to Tax Reform 2016” (PITF No. 32, June 17, 2016) to the fiscal year under review.

The change has no impact on operating income, ordinary income or income before income taxes of the fiscal year under review.

(Significant accounting policies)

1. Valuation standards and valuation methods for securities

(1) Held-to-maturity securities

Amortized cost method (interest method)

(2) Available-for-sale securities

Available-for-sale securities with market value

The market value method is applied, based on the market value as of the fiscal-end. The entire valuation difference from the purchase price is recorded directly as net assets, and the cost of securities sold is calculated using the moving-average method.

2. Valuation standards and valuation methods of inventories

Merchandise

Stated at cost using the moving-average method (balance sheet amount is calculated by writing down the book value of assets which decreased in profitability).

Work in process

Stated at cost using the specific identification method (balance sheet amount is calculated by writing down the book value of assets which decreased in profitability).

Supplies

Stated at cost using the last purchase price method (balance sheet amount is calculated by writing down the book value of assets which decreased in profitability).

3. Depreciation methods of non-current assets

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

Declining balance method (however, straight-line method for server equipment providing services on an integrated basis with software, of all the buildings (excluding accessories), tools, furniture and fixtures acquired on or after April 1, 1998, and accessories to buildings and structures acquired on or after April 1, 2016).

The useful lives of the major assets are as follows.

| | |
|---|---|
| Buildings: | 7-39 years |
| Tools, furniture and fixtures: | 3-15 years |

(2) Intangible assets (excluding leased assets)

Straight-line depreciation

Software for internal use is amortized based on its internally estimated useful life (5 years).

(3) Leased assets

The straight-line method, substituting the lease term with the useful life, assuming no residual value.

4. Basis for recording allowances

(1) Allowance for doubtful accounts

To prepare for bad debt losses, the Company records estimated amount of uncollectable receivables, based on loan loss ratio for general receivables, and case-by-case review of collectability for specific receivables such as doubtful accounts receivable. Since actual loan loss until the end of the fiscal year under review was negligible, loan loss ratio for general receivables is assumed as zero.

(2) Provision for bonuses

To prepare for the payment of bonuses for employees, estimated amount of payment of bonuses is recorded.

(3) Provision for retirement benefits

To prepare for the payment of employees’ retirement benefits, an amount based on retirement benefit obligations (amount required by simplified method at year-end to pay for voluntary termination) and pension assets as of the end of the fiscal year under review is recorded. Since pension assets exceeded retirement benefit obligations as of the end of the fiscal year under review, such excess has been recorded as prepaid pension cost under “other” in investments and other assets.

(4) Provision for granting of shares

To prepare for the granting of shares to employees in accordance with the Share Granting Rules, estimated amount of share granting obligations as of the end of the fiscal year under review is recorded.

5. The range of cash within the statement of cash flows

Cash within the statement of cash flows include cash at hand, demand deposits and short-term investments that are easily converted into cash, with little risk of fluctuation in value and reach maturity within three months from acquisition.

6. Other significant matters underlying the preparation of financial statements

Accounting of consumption taxes

All transactions are recorded net of consumption taxes and local consumption taxes.

Non-deductible consumption taxes are recorded as periodic expenses for the fiscal year in which they incur. However, non-deductible consumption taxes associated with non-current assets are recorded under “other” in investments and other assets, subject to equal amortization in accordance with the provisions of the Corporation Tax Act.

(Notes to Balance Sheet)

* Receiving agency deposit

Receiving agency deposit is a deposit related to money collection business, and an equivalent amount is included in the deposits.

(Notes to Statements of Income)

*1 Approximate ratio of expenses included in selling expenses was 10% in the previous fiscal year, and 6% in the fiscal year under review. Approximate ratio of expenses included in general and administrative expenses was 90% in the previous fiscal year, and 94% in the fiscal year under review.

The major components and amounts of selling, general and administrative expenses are as follows.

(Thousand yen)

| | For the fiscal year ended June 30, 2015 | For the fiscal year ended June 30, 2016 |
|---|---|---|
| Advertising expenses | 83,131 | 16,430 |
| Directors' compensations | 93,829 | 93,860 |
| Salaries, allowances and bonuses | 224,925 | 267,905 |
| Rent expenses | 45,931 | 45,933 |
| Depreciation | 60,246 | 37,965 |

*2 Total research and development expenses included in selling, general and administrative expenses

(Thousand yen)

| For the fiscal year ended June 30, 2015 | For the fiscal year ended June 30, 2016 |
|---|---|
| 14,024 | 32,316 |

*3 Impairment loss

For the fiscal year ended June 30, 2015 (from July 1, 2014 to June 30, 2015)

There is no relevant information.

For the fiscal year ended June 30, 2016 (from July 1, 2015 to June 30, 2016)

There is no relevant information.

(Notes to Statement of Changes in Equity)

For the fiscal year ended June 30, 2015 (from July 1, 2014 to June 30, 2015)

1. Class and total number of issued shares and class and total number of treasury shares

(Shares)

| | Number of shares at beginning of period | Increase during period | Decrease during period | Number of shares at end of period |
|---|---|---|---|---|
| Issued shares | | | | |
| Common shares (Note 1) | 10,100,000 | - | 300,000 | 9,800,000 |
| Total | 10,100,000 | - | 300,000 | 9,800,000 |
| Treasury shares | | | | |
| Common shares (Note 2, 3) | 471,454 | 181,900 | 307,800 | 345,554 |
| Total | 471,454 | 181,900 | 307,800 | 345,554 |

(Notes)

1. The decrease in issued shares by 300,000 shares of common shares is due to the retirement of treasury shares carried out on August 29, 2014.
2. The increase in treasury shares by 181,900 shares of common shares is due to the purchase of treasury shares carried out in the period from February 9, 2015 to June 10, 2015, based on the resolution approving such purchase at the Board of Directors meeting held on February 6, 2015.
3. The decrease in treasury shares by 307,800 shares of common shares is due to the decrease of 300,000 treasury shares through the retirement of treasury shares carried out on August 29, 2014.
4. Following the introduction of the Board Benefit Trust (J-ESOP), Trust & Custody Services Bank, Ltd. (Trust Account E) purchased 1,000 shares of the Company on June 25, 2010. The number of treasury shares stated herein includes 97,900 shares in the Company held by the Trust Account E as of June 30, 2015.

2. Matters related to stock acquisition rights and treasury shares acquisition rights

| Type | Schedule of stock acquisition rights | Class of shares for the purpose of stock acquisition rights | Number of shares for the purpose of stock acquisition rights | | | | Balance at the end of period (Thousand yen) |
|---|---|---|---|---|---|---|---|
| | | | Number of shares at beginning of period | Increase during period | Decrease during period | Number of shares at end of period | |
| Submitting company | 1st series stock acquisition rights in the form of stock options as stock-based compensation | - | - | - | - | - | 9,012 |
| | 2nd series stock acquisition rights in the form of stock options as stock-based compensation | - | - | - | - | - | 10,050 |
| | 1st series stock acquisition rights in the form of performance-based stock options | - | - | - | - | - | 3,685 |
| | 3rd series stock acquisition rights in the form of stock options as stock-based compensation | - | - | - | - | - | 10,073 |
| | 4th series stock acquisition rights in the form of stock options as stock-based compensation | - | - | - | - | - | 6,654 |
| Total | | - | - | - | - | - | 39,475 |

3. Dividends

(1) Cash dividends paid

| (Resolution) | Class of shares | Total cash dividends (Thousand yen) | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| September 28, 2015 Annual General Meeting of Shareholders | Common shares | 457,208 | 47 | June 30, 2014 | September 29, 2014 |

(Note) Total amount of dividend includes dividend paid to Trust & Custody Services Bank, Ltd. (Trust Account E) based on the Board Benefit Trust (J-ESOP) scheme.

(2) Dividends for which the record date falls in the fiscal year under review, but the effective date fall in the following fiscal year

| (Resolution) | Class of shares | Total cash dividends (Thousand yen) | Source of dividend | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| September 28, 2015 Annual General Meeting of Shareholders | Common shares | 477,617 | Retained earnings | 50 | June 30, 2015 | September 29, 2015 |

(Note) Total amount of dividend includes dividend paid to Trust & Custody Services Bank, Ltd. (Trust Account E) based on the Board Benefit Trust (J-ESOP) scheme.

For the fiscal year ended June 30, 2016 (from July 1, 2015 to June 30, 2016)

1. Class and total number of issued shares and class and total number of treasury shares

(Shares)

| | Number of shares at beginning of period | Increase during period | Decrease during period | Number of shares at end of period |
|---|---|---|---|---|
| Issued shares | | | | |
| Common shares (Note 1) | 9,800,000 | - | 100,000 | 9,700,000 |
| Total | 9,800,000 | - | 100,000 | 9,700,000 |
| Treasury shares | | | | |
| Common shares (Note 2, 3) | 345,554 | 263,125 | 126,700 | 481,979 |
| Total | 345,554 | 263,125 | 126,700 | 481,979 |

(Notes)

1. The decrease in issued shares by 100,000 shares of common shares is due to the retirement of treasury shares carried out on August 31, 2015.
2. The increase in treasury shares by 263,000 shares of common shares is due to the purchase of treasury shares carried out based on the resolution approving such purchase at the Board of Directors meeting held on October 30, 2015.
3. The decrease in treasury shares by 126,700 shares of common shares is due to the decreases of 100,000 treasury shares through the retirement carried out on August 31, 2015, 25,800 shares associated with the exercise of stock options, and 900 shares associated with the grant by the Board Benefit Trust (J-ESOP).
4. Following the introduction of the Board Benefit Trust (J-ESOP), Trust & Custody Services Bank, Ltd. (Trust Account E) purchased 1,000 shares of the Company on June 25, 2010. The number of treasury shares stated herein includes 97,900 shares at beginning of period and 97,000 shares at end of period in the Company held by the Trust Account E as of June 30, 2016.

2. Matters related to stock acquisition rights and treasury shares acquisition rights

| Type | Schedule of stock acquisition rights | Class of shares for the purpose of stock acquisition rights | Number of shares for the purpose of stock acquisition rights | | | | Balance at the end of period (Thousand yen) |
|---|---|---|---|---|---|---|---|
| | | | Number of shares at beginning of period | Increase during period | Decrease during period | Number of shares at end of period | |
| Submitting company | 1st series stock acquisition rights in the form of stock options as stock-based compensation | - | - | - | - | - | 9,012 |
| | 2nd series stock acquisition rights in the form of stock options as stock-based compensation | - | - | - | - | - | 10,050 |
| | 1st series stock acquisition rights in the form of performance-based stock options | - | 2,835 | - | 268 | 2,567 | 3,337 |
| | 3rd series stock acquisition rights in the form of stock options as stock-based compensation | - | - | - | - | - | 10,073 |
| | 4th series stock acquisition rights in the form of stock options as stock-based compensation | - | - | - | - | - | 6,654 |
| Total | | - | 2,835 | - | 268 | 2,567 | 39,126 |

3. Dividends

(1) Cash dividends paid

| (Resolution) | Class of shares | Total cash dividends (Thousand yen) | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| September 28, 2015 Annual General Meeting of Shareholders | Common shares | 477,617 | 50 | June 30, 2015 | September 29, 2015 |

(Note) Total amount of dividend includes dividend paid to Trust & Custody Services Bank, Ltd. (Trust Account E) based on the Board Benefit Trust (J-ESOP) scheme.

(2) Dividends for which the record date falls in the fiscal year under review, but the effective date fall in the following fiscal year

| (Resolution) | Class of shares | Total cash dividends (Thousand yen) | Source of dividend | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| September 28, 2016 Annual General Meeting of Shareholders | Common shares | 745,202 | Retained earnings | 80 | June 30, 2016 | September 29, 2016 |

(Note) Total amount of dividend includes dividend paid to Trust & Custody Services Bank, Ltd. (Trust Account E) based on the Board Benefit Trust (J-ESOP) scheme.

(Notes to Statement of Cash Flows)

*Relationship between "Cash and cash equivalents at end of period" and account items listed in the Balance Sheet

(Thousand yen)

| | For the fiscal year ended June 30, 2015 | For the fiscal year ended June 30, 2016 |
|---|---|---|
| Cash and deposits | 13,293,918 | 14,458,084 |
| Securities (MMF, etc.) | 1,099,735 | 499,955 |
| Time deposits with deposit terms of more than three months | (1,100,000) | - |
| Cash and cash equivalents | 13,293,652 | 14,958,039 |

Cash and cash equivalents include ¥9,566,090 thousand commensurate with receiving agency deposit.

(Equity in earnings/loss)

For the fiscal year ended June 30, 2015 (from July 1, 2014 to June 30, 2015)

There is no relevant information.

For the fiscal year ended June 30, 2016 (from July 1, 2015 to June 30, 2016)

There is no relevant information.

(Segment information, etc.)
[Segment information]

For the fiscal year ended June 30, 2015 (from July 1, 2014 to June 30, 2015)

Description is omitted because the Company operates in a single segment of payment and authentication business.

For the fiscal year ended June 30, 2016 (from July 1, 2015 to June 30, 2016)

Description is omitted because the Company operates in a single segment of payment and authentication business.

[Related information]

For the fiscal year ended June 30, 2015 (from July 1, 2014 to June 30, 2015)
1. Information by product and service

Description is omitted because the Company operates in a single segment of payment and authentication business.

2. Information by region
(1) Net sales

(Thousand yen)

| Japan | U.S. | Total |
|---|---|---|
| 5,801,005 | 3,087,764 | 8,888,769 |

(2) Property, plant and equipment

Description is omitted because there are no property, plant and equipment that exist outside Japan.

3. Information by major customer

(Thousand yen)

| Customer name | Net sales | Related segment |
|---|---|---|
| AMAZON.COM INT’L SALES, INC. | 3,087,764 | Payment and authentication |
| GMO Payment Gateway, Inc. | 1,309,505 | Payment and authentication |

For the fiscal year ended June 30, 2016 (from July 1, 2015 to June 30, 2016)
1. Information by product and service

Description is omitted because the Company operates in a single segment of payment and authentication business.

2. Information by region
(1) Net sales

(Thousand yen)

| Japan | U.S. | Total |
|---|---|---|
| 7,495,888 | 3,033,117 | 10,529,005 |

(2) Property, plant and equipment

Description is omitted because there are no property, plant and equipment that exist outside Japan.

3. Information by major customer

(Thousand yen)

| Customer name | Net sales | Related segment |
|---|---|---|
| AMAZON.COM INT'L SALES, INC. | 3,525,399 | Payment and authentication |
| GMO Payment Gateway, Inc. | 1,742,731 | Payment and authentication |

[Information on impairment of non-current assets by reported segment]

For the fiscal year ended June 30, 2015 (from July 1, 2014 to June 30, 2015)

There is no relevant information.

For the fiscal year ended June 30, 2016 (from July 1, 2015 to June 30, 2016)

There is no relevant information.

[Information on amortization and unamortized balance of goodwill by reported segment]

For the fiscal year ended June 30, 2015 (from July 1, 2014 to June 30, 2015)

There is no relevant information.

For the fiscal year ended June 30, 2016 (from July 1, 2015 to June 30, 2016)

There is no relevant information.

[Information on gain on bargain purchase by reported segment]

For the fiscal year ended June 30, 2015 (from July 1, 2014 to June 30, 2015)

There is no relevant information.

For the fiscal year ended June 30, 2016 (from July 1, 2015 to June 30, 2016)

There is no relevant information.

(Per share information)

(Yen)

| | For the fiscal year ended June 30, 2015 | For the fiscal year ended June 30, 2016 |
|---|---|---|
| Net assets per share | 428.10 | 453.37 |
| Net income per share | 48.37 | 71.91 |
| Diluted net income per share | 48.00 | 70.22 |

(Notes)

1. The Company conducted a 2-for-1 share split effective July 1, 2016, based on the resolution of the meeting of the Board of Directors of the Company held on May 19, 2016. Net assets per share, net income per share and diluted net income per share are calculated as if the share split had occurred at the beginning of the prior fiscal year.
2. With respect to the number of treasury shares of common shares for the purpose of calculating net assets per share, as well as the average number of treasury shares of common shares during the period for the purpose of calculating net income per share, the number of treasury shares does not include the number of shares of the Company held by Trust & Custody Services Bank, Ltd. (Trust Account E).

3. The basis of calculation of net income per share and diluted net income per share is as follows:

| | For the fiscal year ended June 30, 2015 | For the fiscal year ended June 30, 2016 |
|---|---|---|
| Net income per share | | |
| Net income (Thousand yen) | 938,121 | 1,350,877 |
| Amount not attributable to common shareholders (Thousand yen) | - | - |
| Net income on common shares (Thousand yen) | 938,121 | 1,350,877 |
| Average number of shares of common shares during the period (Shares) | 19,394,898 | 18,786,561 |
| Diluted net income per share | | |
| Adjustment of net income (Thousand yen) | - | - |
| Increase in number of shares of common shares | 150,492 | 452,324 |
| (Stock acquisition rights included in the above) | (150,492) | (452,324) |
| Overview of residual shares not included in calculation of diluted net income per share due to lack of dilutive effect | - | - |

(Significant subsequent events)

There is no relevant information.

## 6. Others

(1) Changes to Directors and Corporate Auditors

There is no relevant information.

(2) Others

There is no relevant information.