

Financial Results
for the Six Months Ended December 31, 2018
[Japanese GAAP]
(Non-consolidated)



February 4, 2019

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, 2019
 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, 2018 (July 1, 2018 to December 31, 2018)

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

	Net sales		Operating profit		Ordinary profit		Profit	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2018	5,052	2.9	293	(16.0)	306	(16.4)	211	(12.4)
December 31, 2017	4,911	(7.3)	349	(56.3)	366	(60.6)	240	(62.0)

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
December 31, 2018	11.29	11.23
December 31, 2017	12.74	12.65

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2018	23,125	7,286	31.1	383.33
As of June 30, 2018	16,811	7,907	46.5	420.62

(Reference) Equity: As of December 31, 2018: ¥7,190 million
 As of June 30, 2018: ¥7,812 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, 2018	-	0.00	-	50.00	50.00
Fiscal year ending June 30, 2019	-	0.00	-	-	-
Fiscal year ending June 30, 2019 (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, 2019 (July 1, 2018 to June 30, 2019)

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, 2019. The forecast will be announced immediately when it becomes possible to make reasonable forecast.

(% indicates changes from the previous corresponding period.)

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

	Profit		Basic earnings 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):
As of December 31, 2018: 19,400,000 shares
As of June 30, 2018: 19,400,000 shares
 - 2) Total number of treasury shares at the end of the period:
As of December 31, 2018: 643,020 shares
As of June 30, 2018: 825,656 shares
 - 3) Average number of shares during the period:
Six months ended December 31, 2018: 18,705,265 shares
Six months ended December 31, 2017: 18,909,561 shares

* These financial results are outside the scope of quarterly review procedures by a certified public accountant or an audit corporation.

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

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, 2019. The forecast will be announced immediately when it becomes possible to make reasonable forecast.

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

(1) Explanation of Business Results

The Company's business domain is the non-face-to-face payment market and its peripheral market. The non-face-to-face payment market has shown drastic changes, including the progression of smartphone payments. 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 conducted activities to promote "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, 2018, the third year of the "Medium Term Five-Year Management Plan (July 2016 - June 2021)," the Company reported net sales of ¥5,052 million (up 2.9% year-on-year), operating profit of ¥293 million (down 16.0% year-on-year), ordinary profit of ¥306 million (down 16.4% year-on-year) and profit of ¥211 million (down 12.4% year-on-year).

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

The Company's business domain is the non-face-to-face payment market and its peripheral market. The non-face-to-face payment market is expected to continue achieving a certain level of growth in the future. During the period of the New Medium Term Five-Year Management Plan, we are pursuing a growth strategy aimed at achieving the target of ¥5.0 billion in ordinary profit in the final fiscal year by turning the changes in environment, such as the expectation of rapid change in payment methods and others, into new business opportunities.

A. Current status of WELLNET's "Smartphone payment service," *Shiharai-Hisho*

On August 3, 2017, we began the commercial service of *Shiharai-Hisho*, an electronic money service compatible with the increasingly cashless society expected in the future, with our first client, The Kansai Electric Power Co., Inc. The smartphone application *Shiharai-Hisho* is an electronic money service managed on servers with functions including the following:

- 1) Electronic money can be immediately charged from an affiliated bank (can be charged also from other receiving agencies).
- 2) The reminder function of the *Shiharai-Hisho* prevents one from "carelessly forgetting" payment, thereby improving the collection rate.
- 3) Costs will be reduced as a result of a shift from the issuance of invoices by mail to electronic invoices through *Shiharai-Hisho*.

We have completed connections with Sumitomo Mitsui Banking Corporation, JAPAN POST BANK Co., Ltd., The Daisan Bank, Ltd., The Mie Bank, Ltd., The Chiba Kogyo Bank, Ltd., THE TAIKO BANK, LTD., The Hokkaido Bank, Ltd., The Akita Bank, Ltd., The Awa Bank, Ltd., The Ehime Bank, Ltd., The Kagawa Bank, Ltd., THE BANK OF KOCHI, LTD., The Shikoku Bank, Ltd., The Tokushima Bank, Ltd., The Hyakujushi Bank, Ltd., and The Daishi Bank, Ltd. We expect to become affiliated with more banks going forward. In addition, we have implemented security functions including biometric authentication and real-time monitoring functions for settlement information.

In addition to The Kansai Electric Power Co., Inc., our first client to introduce this service, Kyushu Electric Power Co., Inc., Hokkaido Electric Power Co., Inc. (exclusive adoption of the Company's service), Tohoku Electric Power Co., Inc., and Shikoku Electric Power Co., Inc. (exclusive adoption of the Company's service), also began offering this service, and we plan to expand it to other power companies going forward. We have also begun activities on a full scale encouraging businesses that have already introduced our Multi Payment Services to also adopt *Shiharai-Hisho*. In the airline industry, AirAsia Japan

Co., Ltd. has adopted this service, and in the bus industry, this service has been adopted on a full scale in routes that are compatible with one of our strengths, *Bus Mori!* service.

B. Driving forward our Bus IT Promotion Project, *Bus Mori!* SERIES

The number of routes that are compatible with the smartphone application *Bus Mori!* introduced in August 2016 increased to over 250. The adoption of the service is steadily expanding with the functions of single-trip tickets, commuter tickets, coupon tickets, *Denshi Mogiri*, and free passes.

In addition to sales promotion in cooperation with bus companies, we are actively promoting the application by sponsoring the *BUSTABIST* FM radio program, which conveys the appeal of bus travel, on the JFN38 channel, particularly the key TOKYO FM station, every Sunday afternoon.

We will continue to promote *Bus Mori!* as a service which allows consumers to “buy a highway bus ticket with your smartphone.”

C. Stable system operation

The effect of our investments in stable operations and reinforcement of the system over the past few years is apparent in the fact that there were no major system failures. We aim to optimize cost performance by making the revenue structure for each service visible on the premise of stable operations in the future.

D. R&D for the future

In an effort to capture the huge waves of “IoT” and “FinTech,” we are actively involved in development of new features including security functions. Additionally, we are forming affiliations where necessary with universities, etc. with diverse knowledge and technologies and choosing the right course for R&D.

We have completed our preparations for establishing a corporate venture capital business for startup ventures developing payment peripheral platforms.

E. Governance

1) WELLNET Arete

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 provide education of 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 profit 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.

2) Board of Directors in which Outside Directors make up majority

Guided by the management policy of actively and boldly taking on challenges of significantly expanding business opportunities, the Company made a transition to a “company with an audit and supervisory committee” in September 2017, to enhance transparency in the decision-making process and with an

awareness of the corporate governance code.

The majority of the members of the Board of Directors are Outside Directors, with two Internal Directors (of which one is a woman) and three Outside Directors. All members participate in vigorous discussions in every meeting.

F. Activities contributing to local communities

As part of our social contribution, we are providing support to many students through our WELLNET Scholarship, established to help financially struggling students at colleges of technology in Hokkaido. Many letters of gratitude were received from these students, which motivated our employees. We will continue with these activities.

In April 2017, we opened the “WELLNET Morino Childcare Center,” an in-office childcare center established to give employees at the Sapporo Office peace of mind. As part of our social contribution activities, we have begun accepting children in the surrounding neighborhood as well.

G. Performance forecast and shareholder returns (For the three years started in July 2018) (July 2018 - June 2021)

We have not disclosed the financial forecast for the fiscal year ending June 30, 2019 so that we can continue with our management policy, as stated above, of embracing large and swift investment in the face of large business opportunities currently available.

Meanwhile, we will set the dividend payout ratio at 50% or more until the fiscal year ending June 30, 2021 and pay a dividend of ¥50 even when dividend per share is less than ¥50, as consideration for shareholders and in order to encourage shareholders to make long-term investment with peace of mind.

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) Explanation of Financial Position

1) Status of assets, liabilities, and net assets

Total assets as of December 31, 2018 stood at ¥23,125 million. Current assets were ¥20,726 million. This mainly comprises cash and deposits of ¥17,149 million and securities of ¥999 million. Cash and deposits include ¥13,830 million of receiving agency deposits 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 ¥2,398 million. This mainly comprises property, plant and equipment of ¥480 million, intangible assets of ¥1,205 million, and investments and other assets of ¥712 million.

Meanwhile, total liabilities amounted to ¥15,839 million. This mainly comprises receiving agency deposits of ¥13,830 million and accounts payable - trade of ¥577 million.

Total net assets amounted to ¥7,286 million. This mainly comprises shareholders' equity of ¥7,189 million.

2) Status of cash flows

Cash and cash equivalents (the “funds”) as of December 31, 2018 stood at ¥16,069 million. The status of cash flows and their contributing factors are as follows.

(Cash flows from operating activities)

Funds provided by operating activities amounted to ¥6,708 million. The main factor for the increase is a ¥6,871 million increase in receiving agency deposits.

(Cash flows from investing activities)

Funds provided by investing activities amounted to ¥224 million. The main factor for the increase is proceeds from redemption of securities of ¥3,000 million, while main factor for the decrease is purchase of securities of ¥2,999 million.

(Cash flows from financing activities)

Funds used in financing activities amounted to ¥847 million. The main factor for the decrease is cash dividends paid of ¥926 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, 2019. The forecast will be announced immediately when it becomes possible to make reasonable forecast.

2. Financial Statements and Significant Notes

(1) Balance Sheet

(Thousands of yen)

	As of June 30, 2018	As of December 31, 2018
Assets		
Current assets		
Cash and deposits	10,564,002	17,149,856
Accounts receivable - trade	539,030	677,537
Operating accounts receivable	36,072	-
Securities	1,999,913	999,990
Merchandise	2,206	2,139
Work in process	6,630	529
Supplies	1,433	1,065
Other	1,322,082	1,895,394
Total current assets	14,471,371	20,726,513
Non-current assets		
Property, plant and equipment	528,130	480,905
Intangible assets	1,105,878	1,205,722
Investments and other assets	705,978	712,162
Total non-current assets	2,339,987	2,398,789
Total assets	16,811,358	23,125,302
Liabilities		
Current liabilities		
Accounts payable - trade	512,434	577,434
Operating accounts payable	73,555	-
Receiving agency deposits	6,959,082	13,830,756
Income taxes payable	117,135	119,061
Provision for bonuses	-	12,681
Provision for point card certificates	362	94
Other	1,063,212	1,109,373
Total current liabilities	8,725,783	15,649,400
Non-current liabilities		
Provision for granting of shares	42,407	45,099
Asset retirement obligations	7,049	7,102
Long-term accounts payable - other	119,007	119,007
Other	9,921	18,418
Total non-current liabilities	178,385	189,627
Total liabilities	8,904,169	15,839,028

(Thousands of yen)

	As of June 30, 2018	As of December 31, 2018
Net assets		
Shareholders' equity		
Capital stock	667,782	667,782
Capital surplus	3,509,216	3,509,216
Retained earnings	4,690,225	3,854,049
Treasury shares	(1,054,932)	(841,306)
Total shareholders' equity	7,812,292	7,189,741
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	485	384
Total valuation and translation adjustments	485	384
Share acquisition rights	94,411	96,148
Total net assets	7,907,189	7,286,274
Total liabilities and net assets	16,811,358	23,125,302

(2) Statement of Income
(Six months ended December 31)

(Thousands of yen)

	For the six months ended December 31, 2017	For the six months ended December 31, 2018
Net sales	4,911,278	5,052,151
Cost of sales	3,842,590	4,207,184
Gross profit	1,068,688	844,967
Selling, general and administrative expenses	719,535	551,549
Operating profit	349,152	293,417
Non-operating income		
Interest income	1,920	1,772
Dividend income	42	44
Insurance income	-	2,848
Refunded consumption taxes	11,864	-
Gain on investments in partnership	-	3,358
Other	5,343	4,873
Total non-operating income	19,170	12,897
Non-operating expenses		
Loss on investments in partnership	2,026	-
Other	3	-
Total non-operating expenses	2,029	-
Ordinary profit	366,293	306,314
Profit before income taxes	366,293	306,314
Income taxes - current	140,994	103,311
Income taxes - deferred	(15,657)	(8,093)
Total income taxes	125,336	95,217
Profit	240,956	211,096

(3) Statement of Cash Flows

(Thousands of yen)

	For the six months ended December 31, 2017	For the six months ended December 31, 2018
Cash flows from operating activities		
Profit before income taxes	366,293	306,314
Depreciation	145,640	193,019
Interest and dividend income	(1,962)	(1,816)
Loss (gain) on investments in partnership	2,026	(3,358)
Decrease (increase) in operating accounts receivable	94,212	36,072
Decrease (increase) in notes and accounts receivable - trade	(114,505)	(138,506)
Decrease (increase) in inventories	(1,481)	6,535
Increase (decrease) in operating accounts payable	(191,528)	(73,555)
Increase (decrease) in notes and accounts payable - trade	91,540	65,000
Increase (decrease) in receiving agency deposits	(3,438,994)	6,871,673
Other, net	(160,810)	(479,824)
Subtotal	(3,209,570)	6,781,554
Interest and dividend income received	9,462	9,638
Income taxes paid	57,613	(82,682)
Net cash provided by (used in) operating activities	(3,142,494)	6,708,510
Cash flows from investing activities		
Payments into time deposits	(500,000)	-
Proceeds from withdrawal of time deposits	-	500,000
Purchase of securities	(3,499,551)	(2,999,619)
Proceeds from redemption of securities	4,000,000	3,000,000
Purchase of property, plant and equipment	(19,656)	(7,162)
Purchase of intangible assets	(144,909)	(268,792)
Payments for investments in capital	(25,000)	-
Net cash provided by (used in) investing activities	(189,116)	224,425
Cash flows from financing activities		
Cash dividends paid	(942,643)	(926,222)
Proceeds from disposal of treasury shares resulting from exercise of share acquisition rights	3,399	79,148
Purchase of treasury shares	-	(1)
Net cash provided by (used in) financing activities	(939,244)	(847,075)
Net increase (decrease) in cash and cash equivalents	(4,270,854)	6,085,860
Cash and cash equivalents at beginning of period	15,348,149	9,983,995
Cash and cash equivalents at end of period	11,077,294	16,069,856

(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)

(Major capital investment)

The Company resolved at its Board of Directors meeting held on December 27, 2018 to acquire land for the purpose of relocating the Sapporo Office, and on January 31, 2019, the Company signed a purchase agreement. Note that the Company plans to make architectural plans for the building portion at a later date.

(1) Purpose of acquisition

Expecting that its business activities will broaden in the future, the Company acquired the land for the purpose of relocating the Sapporo Office to a new headquarters.

(2) Details of the acquired asset

Location	11-21, Odori Higashi 9-chome, Chuo-ku, Sapporo, Hokkaido 11-45, Odori Higashi 9-chome, Chuo-ku, Sapporo, Hokkaido 11-46, Odori Higashi 9-chome, Chuo-ku, Sapporo, Hokkaido 11-4, Odori Higashi 10-chome, Chuo-ku, Sapporo, Hokkaido
Usable land area	5,486.19 m ²
Acquisition price	¥1,570 million (price for land)

(3) Schedule for the acquisition

Resolution of the Board of Directors meeting	December 27, 2018
Date of signing of land purchase agreement	January 31, 2019
Date of transfer of land ownership	April 19, 2019

(4) Significant effects on operating activities by this capital investment

Although circumstances are subject to future examination, the completion of the office is expected to be March 2020, or later, and the effects on the operating results for the current fiscal year will be immaterial.