

**Financial Results**  
**for the Three Months Ended September 30, 2017**  
**[Japanese GAAP]**  
**(Non-consolidated)**



October 31, 2017

Company name: WELLNET CORPORATION  
 Stock exchange listing: Tokyo Stock Exchange  
 Code number: 2428  
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 Scheduled date of filing quarterly securities report: November 14, 2017  
 Scheduled date of commencing dividend payments: -  
 Availability of supplementary briefing material on quarterly financial results: None  
 Schedule of quarterly financial results briefing session: No

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

**1. Financial Results for the Three Months Ended September 30, 2017 (July 1, 2017 to September 30, 2017)**

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

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended September 30, 2017	2,399	(12.2)	217	(54.9)	229	(62.5)	158	(61.2)
September 30, 2016	2,731	11.7	481	(10.0)	612	13.6	408	13.3

	Net income per share	Diluted net income per share
Three months ended September 30, 2017	Yen 8.40	Yen 8.34
September 30, 2016	21.92	21.60

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2017	17,128	8,010	46.3	418.96
As of June 30, 2017	22,457	8,780	38.7	460.36

(Reference) Equity: As of September 30, 2017: ¥7,924 million  
 As of June 30, 2017: ¥8,698 million

**2. Dividends**

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

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

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

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

(% indicates changes from the previous corresponding period.)

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

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

(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):
    - September 30, 2017: 19,400,000 shares
    - June 30, 2017: 19,400,000 shares
  - 2) Total number of treasury shares at the end of the period:
    - September 30, 2017: 485,658 shares
    - June 30, 2017: 505,158 shares
  - 3) Average number of shares during the period:
    - Three months ended September 30, 2017: 18,895,775 shares
    - Three months ended September 30, 2016: 18,657,238 shares

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

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

### (1) Explanation of Business Results

#### 1) Analysis of Business Results

During the three months ended September 30, 2017, the non-face-to-face payment market on which the Company's business is grounded have entered a period of significant change with the progression of FinTech and the emergence of various new services such as the sharing business, in addition to the spread of smartphones. Under these circumstances, the Company announced the "Medium Term Five-Year Management Plan (July 2016 - June 2021)" in August 2016 to actively and boldly take on new business opportunities, and has conducted activities to vigorously 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 three months ended September 30, 2017, the second year of the "Medium Term Five-Year Management Plan (July 2016 - June 2021)," the Company reported net sales of ¥2,399 million (down 12.2% year-on-year), operating income of ¥217 million (down 54.9% year-on-year), ordinary income of ¥229 million (down 62.5% year-on-year) and net income of ¥158 million (down 61.2% year-on-year).

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

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. 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, 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 such as the utilization and application of IoT into new business opportunities.

##### A. Released the WELLNET's "FinTech service," "*Shiharai-Hisho*" (August 2017)

We began the commercial service of "*Shiharai-Hisho*" on August 3, 2017 for our first client, The Kansai Electric Power Co., Inc. "*Shiharai-Hisho*" was conceptualized in 2011 for electronic money/cashless payment, which are expected to expand in the future, and its requirements have been defined and development has been pushed ahead 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 immediately charged 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.
- 3) Costs will be reduced and the collection rate will be improved as a result of a shift from the issuance of invoices by mail to "*Hisho*."

To promote this service, we commenced proactive sales promotion activities, including working with The Kansai Electric Power Co., Inc., to appeal mainly to customers who pay by cash using the payment form. Going forward, we will expand the service to business operators who already have installed our payment system, increase the number of affiliated banks, expand app distribution and conduct aggressive promotion aimed at consumers. Through these efforts, we will vigorously push forward the expansion of the payment volume through promotion of the app to foster this service into the one responsible for the next generation of WELLNET.

## B. Actively promoting Bus IT Promotion Project

We will improve, popularize and expand “Bus Mori! SERIES,” which constitutes the core of Bus IT Promotion Solution. Regarding the smartphone application service “Bus Mori!” introduced in August 2016, the number of downloads was more than 60,000 thanks to active sales promotion in cooperation with bus companies through initiatives such as sponsoring the FM radio program “BUSTABIST,” bus wrap advertising, and distributing pamphlets and leaflets. The number of routes on which the application can be purchased is also steadily increasing.

“Bus Mori!” is a convenient app that allows users to complete all the processes, including reservation, purchase, change and cancellation, simply with their smartphones at hand anytime and anywhere. In addition to the “Smartphone Commutation Ticket” that we started providing in March 2017, through the scheduled provision of “Denshi Mogiri” function in November 2017 as well as the launch of other functions, we will develop “Bus Mori!” into an app with even more enhanced functions.

Going forward, the Company will continuously and aggressively promote “Bus Mori!,” which would allow consumers to “buy a highway bus ticket through the app.”

## C. Interconnecting and visualizing internal work

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

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

## D. Stable system operation

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

On the infrastructure front, based on the judgment that the conventional method of infrastructure development cannot fully optimize rapidly changing traffic, we will aim to achieve both stable operations through cloud-based services that can flexibly handle scale-up and distributed processing in the next three years, and optimal cost performance.

## E. Governance

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

(WELLNET Arete)

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

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

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

(WELLNET Employee Arete)

I will avoid the pitfalls of stereotypes and think freely.

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

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

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

I will repeatedly validate the execution result and improve thereon.

I will make honest, accurate and quick reports.

I will conduct business after documenting services to be provided and compensation to be received.  
I will hold rectitude as my motto and accept neither entertainment nor gifts.

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

We established the ¥100 million WELLNET Scholarship for a lot of financially struggling students attending a technical college in Hokkaido and added an additional ¥60 million in the fiscal year ended June 30, 2017 for a total of ¥220 million. We have been encouraged by the many letters of gratitude we received from such students, enabling us to build wonderful relations with them.

In addition, as part of our effort to enhance employee benefits, we opened “WELLNET Morino Childcare Center,” an in-office childcare center within the Sapporo Office, in April 2017. This facility provides employees working in the Sapporo Office an environment where they can work with peace of mind and is expected to also lead to the acquisition of excellent human resources.

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

### 3) Changes in Management Structure

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 audit and supervisory committee,” out of a need to enhance transparency of 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 and three Outside Directors. In addition, in order to show the Company’s stance of actively promoting female employees internally and externally, the Company has appointed one female Internal Director. Meanwhile, we also increased the number of Executive Officers to enhance our structure for achieving the target.

#### (2) Explanation of Financial Position

Total assets as of September 30, 2017 stood at ¥17,128 million. Current assets were ¥15,388 million. This mainly comprises cash and deposits of ¥11,266 million. Cash and deposits include ¥6,761 million of receiving agency deposit in money collection business, which is the money kept temporarily by the Company up to the predetermined date of transfer to operators in the following month. Non-current assets amounted to ¥1,739 million. This mainly comprises property, plant and equipment of ¥398 million, intangible assets of ¥862 million, and investments and other assets of ¥477 million.

Meanwhile, total liabilities amounted to ¥9,117 million. This mainly comprises receiving agency deposit of ¥6,761 million and deposits received of ¥874 million.

Total net assets amounted to ¥8,010 million. This mainly comprises shareholders’ equity of ¥7,923 million.

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

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

## 2. Financial Statements and Primary Notes

### (1) Balance Sheet

(Thousand yen)

	As of June 30, 2017	As of September 30, 2017
<b>Assets</b>		
Current assets		
Cash and deposits	15,848,163	11,266,239
Accounts receivable - trade	457,038	521,545
Operating accounts receivable	233,052	157,311
Securities	2,999,842	1,999,934
Merchandise	2,677	2,554
Work in process	6,970	9,264
Supplies	1,553	1,737
Other	1,204,413	1,430,052
Total current assets	20,753,711	15,388,640
Non-current assets		
Property, plant and equipment	415,448	398,813
Intangible assets	829,571	862,691
Investments and other assets	459,094	477,914
Total non-current assets	1,704,114	1,739,419
Total assets	22,457,826	17,128,059
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	464,637	490,545
Operating accounts payable	456,332	322,632
Receiving agency deposits	11,381,496	6,761,469
Income taxes payable	—	43,918
Provision for bonuses	—	26,463
Provision for point certificates	—	93
Other	1,210,661	1,294,840
Total current liabilities	13,513,128	8,939,964
Non-current liabilities		
Provision for granting of shares	35,925	38,386
Asset retirement obligations	6,946	6,972
Long-term accounts payable - other	119,007	119,007
Other	2,567	13,005
Total non-current liabilities	164,446	177,371
Total liabilities	13,677,574	9,117,336

(Thousand yen)

	As of June 30, 2017	As of September 30, 2017
Net assets		
Shareholders' equity		
Capital stock	667,782	667,782
Capital surplus	3,509,216	3,509,216
Retained earnings	5,203,332	4,405,921
Treasury shares	(682,037)	(659,151)
Total shareholders' equity	8,698,293	7,923,768
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	129	537
Total valuation and translation adjustments	129	537
Subscription rights to shares	81,828	86,417
Total net assets	8,780,251	8,010,723
Total liabilities and net assets	22,457,826	17,128,059



(2) Statement of Income

(Three months ended September 30)

(Thousand yen)

	For the three months ended September 30, 2016	For the three months ended September 30, 2017
Net sales	2,731,433	2,399,006
Cost of sales	1,954,098	1,861,317
Gross profit	777,334	537,689
Selling, general and administrative expenses	295,803	320,475
Operating income	481,531	217,214
Non-operating income		
Interest income	2,271	1,229
Gain on reversal of provision for contingent loss	39,958	—
Refunded consumption taxes	88,436	11,864
Other	408	1,511
Total non-operating income	131,075	14,605
Non-operating expenses		
Interest expenses	0	—
Loss on investments in partnership	—	2,026
Total non-operating expenses	0	2,026
Ordinary income	612,606	229,793
Income before income taxes	612,606	229,793
Income taxes - current	125,719	81,240
Income taxes - deferred	77,954	(10,230)
Total income taxes	203,673	71,009
Net income	408,933	158,783

### (3) 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.

(Additional information)

(Provision for point certificates)

In the three months ended September 30, 2017, we began the “*Shiharai-Hisho*” FinTech service as a new business. The account holder of the service is given points, and the amount of points expected to be used in the future is recorded as a provision for point certificates, to prepare for payments associated with the future use of the points.