

**Financial Results**  
**for the Nine Months Ended March 31, 2018**  
**[Japanese GAAP]**  
**(Non-consolidated)**



April 27, 2018

Company name: WELLNET CORPORATION  
 Stock exchange listing: Tokyo Stock Exchange  
 Code number: 2428  
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 Scheduled date of filing quarterly securities report: May 15, 2018  
 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 Nine Months Ended March 31, 2018 (July 1, 2017 to March 31, 2018)**

(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	%
Nine months ended								
March 31, 2018	7,421	(6.2)	582	(43.0)	601	(47.8)	393	(50.3)
March 31, 2017	7,914	1.2	1,022	(39.8)	1,153	(32.7)	792	(31.3)

	Net income per share	Diluted net income per share
Nine months ended	Yen	Yen
March 31, 2018	20.84	20.70
March 31, 2017	42.32	41.61

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2018	21,880	8,019	36.2	423.71
As of June 30, 2017	22,457	8,780	38.7	460.36

(Reference) Equity: As of March 31, 2018: ¥7,927 million

As of June 30, 2017: ¥8,698 million

**2. Dividends**

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

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

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

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income	
Full year	Million yen	%	Million yen	%	Million yen	%
	9,700	(5.5)	640 - 690	(41.8) - (37.2)	660 - 710	(46.8) - (42.7)

	Net income		Net income per share	
Full year	Million yen	%	Yen	
	480 - 510	(44.8) - (41.4)	25.47 - 27.06	

(Note) Revision of financial results forecast from recently announced figures: Yes

(Note) Financial results forecast for the fiscal year ending June 30, 2018 so far did not disclose forecasts in figures as there were numerous uncertainties that may impact financial results. Financial results forecasts in figures are announced in this report, as the uncertainties have diminished with the progress of this fiscal period, enabling results outlook to be estimated in figures.

Meanwhile, figures are presented in ranges, as they may fluctuate depending on the progress in the promotion of new businesses.

#### \* 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):
    - March 31, 2018: 19,400,000 shares
    - June 30, 2017: 19,400,000 shares
  - 2) Total number of treasury shares at the end of the period:
    - March 31, 2018: 690,656 shares
    - June 30, 2017: 505,158 shares
  - 3) Average number of shares during the period:
    - Nine months ended March 31, 2018: 18,892,810 shares
    - Nine months ended March 31, 2017: 18,721,853 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

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. Qualitative Information on Financial Results for the Period under Review

### (1) Explanation of Business Results

During the nine months ended March 31, 2018, the non-face-to-face payment market on which the Company's business is grounded have entered a period of significant change with the progression of FinTech and the emergence of various new services such as the sharing business, in addition to the spread of smartphones. Under these circumstances, the Company announced the "Medium Term Five-Year Management Plan (July 2016 - June 2021)" in August 2016 to actively and boldly take on new business opportunities, and has promoted "Response to the age of electronic money," "Promotion of Bus IT Promotion Solution Project" and "Service support for consumers from the business operator side" as priority measures.

For the nine months ended March 31, 2018, the second year of the "Medium Term Five-Year Management Plan (July 2016 - June 2021)," the Company reported net sales of ¥7,421 million (down 6.2% year-on-year), operating income of ¥582 million (down 43.0% year-on-year), ordinary income of ¥601 million (down 47.8% year-on-year) and net income of ¥393 million (down 50.3% year-on-year).

The decreases in net sales and incomes are mainly due to price adjustments against major business operators and consolidation in the convenience store sector that resulted in decreases in OEM supplies and information processing such as Personal Identification Number (PIN) and Point Of Sales Activation (POSA). In addition, the result is attributable to the commencement of depreciation related to the investment in new products such as *Shiharai-Hisho* and Bus Mori!, which were launched recently, ongoing provision of additional features thereof, as well as advertising expenses aimed at expanding these services, R&D investment as fraud risk prevention, and increased labor cost due to an increase in the number of employees. Early achievement of profitability in the above mentioned new products is our utmost priority.

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

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

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

Regarding "*Shiharai-Hisho*," a commercial service we launched with The Kansai Electric Power Co., Inc. as its first client, we continue working to expand it primarily to other electric power companies and to increase the number of affiliated financial institutions.

In the course of this effort, primarily due to catering to the requests from financial institutions, such as biometric authentication for ensuring robust security and R&D and implementation of intrusion detection systems, affiliation with financial institutions is behind schedule. Nonetheless, we will keep to the initial concept of this project and foster this service into the one responsible for the next generation of WELLNET. In the fourth quarter, we will start the provision of the service to our current affiliated operators.

## B. Actively promoting Bus IT Promotion Project “Bus Mori!”

Regarding the smartphone application service “Bus Mori!” introduced in August 2016, the number of downloads was more than 90,000 thanks to sales promotion in cooperation with bus companies through initiatives such as sponsoring the FM radio program “BUSTABIST,” and distributing pamphlets and leaflets. The number of routes on which the application can be purchased is also steadily increasing.

The provision of “Bus Mori!” service was commenced to railway companies. One such example is the “Smartphone Commutation Ticket” that we started providing in March 2017, which was adopted by Hokkaido Railway Company in April 2018 for some of its rail lines. Through the provision of “Denshi Mogiri” for “punching” the tickets shown on smartphones in January 2018 and “coupon ticket” function in April, “Bus Mori!” is developing into an app with even more enhanced functions.

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

## C. Interconnecting and visualizing internal work

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

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

## D. Stable system operation

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

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

## E. Governance

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

(WELLNET Arete)

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

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

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

(WELLNET Employee Arete)

I will avoid the pitfalls of stereotypes and think freely.

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

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

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

I will repeatedly validate the execution result and improve thereon.

I will make honest, accurate and quick reports.

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

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

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

As part of our social contribution, we established WELLNET Scholarship to a lot of financially struggling students attending a technical college in Hokkaido, where the Company was founded, and provided support to them. Many letters of gratitude we received from such students and schools motivate our employees, 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. The center 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 completed preparations for establishing CVC so that we can conduct joint research as necessary with universities, business entities, and companies with diverse knowledge and technologies, and also flexibly cooperate with companies engaged in the development and establishment of the payment peripheral platform.

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

#### (2) Explanation of Financial Position

Total assets as of March 31, 2018 stood at ¥21,880 million. Current assets were ¥19,756 million. This mainly comprises cash and deposits of ¥15,544 million and securities of ¥1,999 million. Cash and deposits include ¥11,790 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 ¥2,123 million. This mainly comprises property, plant and equipment of ¥555 million, intangible assets of ¥1,012 million, and investments and other assets of ¥555 million.

Meanwhile, total liabilities amounted to ¥13,861 million. This mainly comprises receiving agency deposit of ¥11,790 million and accounts payable - trade of ¥520 million.

Total net assets amounted to ¥8,019 million. This mainly comprises shareholders' equity of ¥7,926 million.

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

Please see “Notice Concerning Revisions in the Financial Results Forecast” announced on April 27, 2018.

## 2. Financial Statements and Primary Notes

### (1) Balance Sheet

(Thousand yen)

	As of June 30, 2017	As of March 31, 2018
<b>Assets</b>		
Current assets		
Cash and deposits	15,848,163	15,544,353
Accounts receivable - trade	457,038	545,583
Operating accounts receivable	233,052	71,736
Securities	2,999,842	1,999,914
Merchandise	2,677	1,987
Work in process	6,970	6,127
Supplies	1,553	1,695
Other	1,204,413	1,585,329
Total current assets	20,753,711	19,756,727
Non-current assets		
Property, plant and equipment	415,448	555,858
Intangible assets	829,571	1,012,354
Investments and other assets	459,094	555,657
Total non-current assets	1,704,114	2,123,870
<b>Total assets</b>	<b>22,457,826</b>	<b>21,880,597</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	464,637	520,778
Operating accounts payable	456,332	141,469
Receiving agency deposits	11,381,496	11,790,427
Income taxes payable	—	83,228
Provision for bonuses	—	33,540
Provision for point certificates	—	385
Other	1,210,661	1,112,942
Total current liabilities	13,513,128	13,682,772
Non-current liabilities		
Provision for granting of shares	35,925	41,918
Asset retirement obligations	6,946	7,024
Long-term accounts payable - other	119,007	119,007
Other	2,567	10,488
Total non-current liabilities	164,446	178,438
<b>Total liabilities</b>	<b>13,677,574</b>	<b>13,861,211</b>

(Thousand yen)

	As of June 30, 2017	As of March 31, 2018
Net assets		
Shareholders' equity		
Capital stock	667,782	667,782
Capital surplus	3,509,216	3,509,216
Retained earnings	5,203,332	4,638,807
Treasury shares	(682,037)	(889,255)
Total shareholders' equity	8,698,293	7,926,550
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	129	713
Total valuation and translation adjustments	129	713
Subscription rights to shares	81,828	92,122
Total net assets	8,780,251	8,019,386
Total liabilities and net assets	22,457,826	21,880,597



## (2) Statement of Income

(Nine months ended March 31)

(Thousand yen)

	For the nine months ended March 31, 2017	For the nine months ended March 31, 2018
Net sales	7,914,544	7,421,159
Cost of sales	5,857,953	5,798,545
Gross profit	2,056,591	1,622,613
Selling, general and administrative expenses	1,034,115	1,039,840
Operating income	1,022,476	582,773
Non-operating income		
Interest income	3,223	2,653
Dividend income	—	42
Gain on reversal of provision for contingent loss	39,958	11,864
Refunded consumption taxes	88,436	—
Other	2,342	7,122
Total non-operating income	133,961	21,681
Non-operating expenses		
Interest expenses	0	—
Loss on investments in partnership	3,335	2,956
Other	—	28
Total non-operating expenses	3,335	2,984
Ordinary income	1,153,101	601,470
Income before income taxes	1,153,101	601,470
Income taxes - current	315,701	225,326
Income taxes - deferred	45,021	(17,652)
Total income taxes	360,722	207,673
Net income	792,379	393,797

(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.