

Financial Results
for the Fiscal Year Ended June 30, 2019
[Japanese GAAP]
(Non-consolidated)



August 7, 2019

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
 Contact: Shizuyo Takahashi, Director, General Manager of Administrative Division
 Phone: +81-3-3580-0199
 Scheduled date of annual general meeting of shareholders: September 25, 2019
 Scheduled date of commencing dividend payments: September 26, 2019
 Scheduled date of filing securities report: September 26, 2019
 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, 2019 (July 1, 2018 to June 30, 2019)

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

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended								
June 30, 2019	10,032	2.5	503	(25.8)	530	(25.1)	374	(24.3)
June 30, 2018	9,783	(4.6)	677	(38.3)	706	(42.9)	495	(43.1)

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended					
June 30, 2019	20.02	19.92	4.7	2.6	5.0
June 30, 2018	26.31	26.12	6.0	3.6	6.9

(Reference) Equity in earnings/loss of affiliates: Fiscal year ended June 30, 2019: ¥- million
 Fiscal year ended June 30, 2018: ¥- million

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2019	18,960	7,443	38.8	392.04
As of June 30, 2018	16,811	7,907	46.5	420.62

(Reference) Equity: As of June 30, 2019: ¥7,353 million
 As of June 30, 2018: ¥7,812 million

(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
	Million yen	Million yen	Million yen	Million yen
As of June 30, 2019	3,177	(477)	(848)	11,835
As of June 30, 2018	(3,993)	35	(1,405)	9,983

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, 2018	-	0.00	-	50.00	50.00	928	190.0	11.4
Fiscal year ended June 30, 2019	-	0.00	-	50.00	50.00	937	249.8	12.3
Fiscal year ending June 30, 2020 (Forecast)	-	0.00	-	-	-		-	

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, 2020. The forecast will be announced immediately when it becomes possible to make reasonable forecast.

3. Financial Results Forecast for the Fiscal Year Ending June 30, 2020 (July 1, 2019 to June 30, 2020)

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, 2020. 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	
	Million yen	%	Million yen	%	Million yen	%
First half	-	-	-	-	-	-
Full year	-	-	-	-	-	-

	Profit		Basic earnings per share	
	Million yen	%	Yen	
First half	-	-	-	
Full year	-	-	-	

* 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: No
- 2) Changes in accounting policies other than 1) above: No
- 3) Changes in accounting estimates: No
- 4) Retrospective restatement: No

(2) Total number of issued shares (common shares)

- 1) Total number of issued shares at the end of the period (including treasury shares):

As of June 30, 2019: 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 June 30, 2019: 643,048 shares

As of June 30, 2018: 825,656 shares

- 3) Average number of shares during the period:

Fiscal year ended June 30, 2019: 18,730,900 shares

Fiscal year ended June 30, 2018: 18,817,761 shares

* These financial results are outside the scope of audit 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, 2020. The forecast will be announced immediately when it becomes possible to make reasonable forecast.

Table of Contents

1. Overview of Business Results, etc.....	2
(1) Overview of Business Results.....	2
(2) Overview of Financial Position.....	2
(3) Basic Policy for Profit Sharing and Dividends for the Fiscal Year under Review and the Next Fiscal Year.....	3
2. Management Policy.....	4
3. Basic Principle on the Selection of Accounting Standards.....	6
4. Financial Statements and Significant Notes.....	7
(1) Balance Sheet.....	7
(2) Statement of Income.....	9
(3) Statement of Changes in Equity.....	11
(4) Statement of Cash Flows.....	13
(5) Notes to Financial Statements.....	14
(Notes on going concern assumption).....	14
(Additional information).....	14
(Significant accounting policies).....	15
(Changes in presentation).....	17
(Notes to Balance Sheet).....	17
(Notes to Statement of Income).....	17
(Notes to Statement of Changes in Equity).....	18
(Notes to Statement of Cash Flows).....	23
(Segment information, etc.).....	24
(Per share information).....	26
(Significant subsequent events).....	26
5. Others.....	27
(1) Changes to Directors.....	27
(2) Others.....	27

1. Overview of Business Results, etc.

(1) Overview of Business Results

Face-to-face smartphone payments have recently shown drastic changes. In the non-face-to-face payment market, the Company's business domain, moves toward cashless payments and others are expected to become more active. Moreover, the trend of transferring various services to cloud-based ones is accelerating. 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 fiscal year ended June 30, 2019, the third year of the Medium Term Plan, the Company reported net sales of ¥10,032 million (up 2.5% year-on-year), operating profit of ¥503 million (down 25.8% year-on-year), ordinary profit of ¥530 million (down 25.1% year-on-year) and profit of ¥374 million (down 24.3% year-on-year).

(2) Overview of Financial Position

1) Status of assets, liabilities, and net assets (Assets)

Current assets as of June 30, 2019 stood at ¥15,138 million. This mainly comprises cash and deposits of ¥12,915 million and accounts receivable - trade of ¥560 million. Cash and deposits include ¥9,393 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. Meanwhile, non-current assets amounted to ¥3,822 million. This mainly comprises land of ¥1,739 million and software of ¥1,078 million. As a result, total assets amounted to ¥18,960 million.

(Reference) Cash and deposits, net (net balance of cash and deposits after offsetting receiving agency deposits related to money collection business)

	(Thousand yen)	
	As of June 30, 2018	As of June 30, 2019
(A) Cash and deposits	10,564,002	12,915,351
(B) Receiving agency deposits	6,959,082	9,393,868
(A)-(B) Cash and deposits, net	3,604,919	3,521,483

(Liabilities)

Current liabilities as of June 30, 2019 stood at ¥11,325 million. This mainly comprises receiving agency deposits of ¥9,393 million and deposits received of ¥1,138 million. Meanwhile, non-current liabilities amounted to ¥191 million. As a result, total liabilities amounted to ¥11,517 million.

(Net assets)

Net assets as of June 30, 2019 stood at ¥7,443 million. This mainly comprises shareholders' equity of ¥7,353 million.

2) Status of cash flows

Cash and cash equivalents (the "funds") as of June 30, 2019 stood at ¥11,835 million.

The status of cash flows as of June 30, 2019 and their contributing factors are as follows.

(Cash flows from operating activities)

Funds provided by operating activities for the fiscal year ended June 30, 2019 amounted to ¥3,177 million. The main factors for the increase are an increase of ¥2,434 million in receiving agency deposits and profit before income taxes of ¥537 million, while the main factor for the decrease is a decrease in income taxes paid of ¥224 million.

(Cash flows from investing activities)

Funds used in investing activities for the fiscal year ended June 30, 2019 amounted to ¥477 million. The main factor for the increase is proceeds from redemption of securities of ¥4,000 million, while the main factors for the decrease are purchase of securities of ¥2,999 million and purchase of property, plant and equipment of ¥1,615 million.

(Cash flows from financing activities)

Funds used in financing activities for the fiscal year ended June 30, 2019 amounted to ¥848 million. The main factor for the decrease is cash dividends paid of ¥927 million.

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

We do not disclose the financial forecast for each fiscal year since it is difficult to forecast the effect of active and bold investment on corporate performance.

Meanwhile, in regard to the policy of setting the dividend payout ratio at 50% or more (a dividend of 50 yen even when dividend per share is less than 50 yen) during the Medium Term Management Plan in order to encourage shareholders to make long-term investment with peace of mind, we will keep this policy for the dividend for the fiscal year ended June 30, 2019. For the fiscal year ending June 30, 2020 and later, however, as we aim to give priority to early monetization of next-generation products and services in focus and investment plans including the construction of the new Sapporo Office in a bid to secure excellent human resources of information technology, the minimum dividend payment per share (50 yen) will only apply until the end of this fiscal year (ended June 30, 2019).

It should be noted that we will maintain the dividend payout ratio of 50% or more.

2. Management Policy

[New Medium Term Five-Year Management Plan] (July 2016 - June 2021)

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 business domain, 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 activities to meet the changes in environment, such as the rapid change in payment methods.

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

On August 3, 2017, we began the commercial service of *Shiharai-Hisho*, a smartphone payment service compatible with the increasingly cashless society expected in the future, with our first client, The Kansai Electric Power Co., Inc. Subsequently, Kyushu Electric Power Co., Inc., Hokkaido Electric Power Co., Inc. (exclusive adoption of the Company's service), Tohoku Electric Power Co., Inc., Shikoku Electric Power Co., Inc. (exclusive adoption of the Company's service), and Hokuriku Electric Power Company (exclusive adoption of the Company's service) also began offering this service, and we have become affiliated with 27 banks, including Sumitomo Mitsui Banking Corporation and JAPAN POST BANK Co., Ltd. We expect to be affiliated with more banks going forward. In addition to power companies, we are expanding this service to businesses that have already introduced our Multi Payment Services, as well as lifestyle and transportation infrastructure business operators such as bus, railway, and airline companies.

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 has already increased to 296, partly due to the effect of increase in variation of services, such as single-trip tickets, coupon tickets, commuter tickets, free passes and collaboration with Alipay. We are engaging in proactive sales promotion. Moreover, we are developing several new services in a plan to foster Bus Mori! into a total cloud service.

Moving forward, we will increase user numbers and payment volumes for both *Shiharai-Hisho* and *Bus Mori!* in collaboration with business operators and affiliated partners.

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 in these two years. We aim to optimize cost performance on the premise of stable operations in the future.

Additionally, in a bid to secure excellent human resources of information technology engaging in the development and operation of systems at the Sapporo Office, we purchased land with a usable area of 5,486.19 m² in Odori Higashi 9-chome, Chuo-ku, Sapporo, in April 2019, and started the design process. We aim for the relocation of the Sapporo Office in 2021.

D. R&D for the future

In an effort to capture the huge waves of "IoT" and "FinTech," we are forming affiliations where necessary with universities, etc. with diverse knowledge and technologies and choosing the right course for R&D. Additionally, we will consider investment in startup ventures developing payment peripheral platforms as necessary.

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

The Company made a transition to a "company with an audit and supervisory committee" in September 2017 to enhance transparency of the decision-making process in its active and bold management, 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 against 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

We do not disclose the financial forecast for each fiscal year since it is difficult to forecast the effect of active and bold investment on corporate performance. Meanwhile, in regard to the policy of setting the dividend payout ratio at 50% or more (a dividend of 50 yen even when dividend per share is less than 50 yen) during the Medium Term Management Plan in order to encourage shareholders to make long-term investment with peace of mind, we will keep this policy for the dividend for the fiscal year ended June 30, 2019. For the fiscal year ending June 30, 2020 and later, however, as we aim to give priority to early monetization of next-generation products and services in focus and investment plans including the construction of the new Sapporo Office in a bid to secure excellent human resources of information technology, the minimum dividend payment per share (50 yen) will only apply until the end of this fiscal year (ended June 30, 2019).

It should be noted that we will maintain the dividend payout ratio of 50% or more.

We will survive this drastic changes and collectively work to improve our corporate value toward the next

generation.

3. 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.

4. Financial Statements and Significant Notes

(1) Balance Sheet

(Thousands of yen)

	As of June 30, 2018	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	10,564,002	12,915,351
Accounts receivable - trade	539,030	560,714
Operating accounts receivable	36,072	-
Securities	1,999,913	-
Merchandise	2,206	2,133
Work in process	6,630	8,574
Supplies	1,433	1,438
Prepaid expenses	82,495	79,656
Other	1,239,587	1,570,569
Total current assets	14,471,371	15,138,438
Non-current assets		
Property, plant and equipment		
Buildings	284,506	284,506
Accumulated depreciation	(136,999)	(145,632)
Buildings, net	147,507	138,873
Structures	10,459	12,459
Accumulated depreciation	(9,181)	(9,452)
Structures, net	1,278	3,007
Tools, furniture and fixtures	794,252	784,756
Accumulated depreciation	(554,383)	(638,112)
Tools, furniture and fixtures, net	239,869	146,643
Land	136,266	1,739,209
Construction in progress	3,207	-
Total property, plant and equipment	528,130	2,027,734
Intangible assets		
Trademark right	1,332	1,696
Software	1,104,546	1,078,368
Total intangible assets	1,105,878	1,080,065
Investments and other assets		
Investment securities	206,804	205,965
Long-term prepaid expenses	49,693	35,968
Investments in capital	93,708	100,362
Guarantee deposits	198,562	198,643
Prepaid pension cost	16,937	18,441
Deferred tax assets	133,906	150,902
Other	6,365	4,157
Total investments and other assets	705,978	714,441
Total non-current assets	2,339,987	3,822,241
Total assets	16,811,358	18,960,679

(Thousands of yen)

	As of June 30, 2018	As of June 30, 2019
Liabilities		
Current liabilities		
Accounts payable - trade	512,434	476,794
Operating accounts payable	73,555	-
Accounts payable - other	166,660	169,766
Accrued expenses	19,587	22,600
Income taxes payable	117,135	71,416
Advances received	951	278
Deposits received	870,824	1,138,123
Receiving agency deposits	6,959,082	9,393,868
Provision for point card certificates	362	274
Other	5,188	52,296
Total current liabilities	8,725,783	11,325,418
Non-current liabilities		
Provision for granting of shares	42,407	48,240
Asset retirement obligations	7,049	7,154
Long-term accounts payable - other	119,007	119,007
Other	9,921	17,276
Total non-current liabilities	178,385	191,678
Total liabilities	8,904,169	11,517,096
Net assets		
Shareholders' equity		
Capital stock	667,782	667,782
Capital surplus		
Legal capital surplus	3,509,216	3,509,216
Total capital surpluses	3,509,216	3,509,216
Retained earnings		
Legal retained earnings	22,010	22,010
Other retained earnings		
Reserve for special depreciation	1,565	-
General reserve	3,160,000	3,160,000
Retained earnings brought forward	1,506,650	835,844
Total retained earnings	4,690,225	4,017,854
Treasury shares	(1,054,932)	(841,337)
Total shareholders' equity	7,812,292	7,353,515
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	485	(98)
Total valuation and translation adjustments	485	(98)
Share acquisition rights	94,411	90,165
Total net assets	7,907,189	7,443,582
Total liabilities and net assets	16,811,358	18,960,679

(2) Statement of Income

(Thousands of yen)

	Fiscal year ended June 30, 2018	Fiscal year ended June 30, 2019
Net sales	9,783,582	10,032,138
Cost of sales	7,917,424	8,422,626
Gross profit	1,866,158	1,609,512
Selling, general and administrative expenses	1,188,247	1,106,304
Operating profit	677,910	503,207
Non-operating income		
Interest income	2,267	1,476
Interest on securities	8,583	2,951
Dividend income	142	6,155
Refunded consumption taxes	11,864	-
Gain on investments in partnership	-	6,956
Insurance income	-	2,848
Other	8,897	6,952
Total non-operating income	31,754	27,340
Non-operating expenses		
Loss on investments in partnership	2,956	-
Other	53	-
Total non-operating expenses	3,009	-
Ordinary profit	706,655	530,548
Extraordinary income		
Gain on reversal of share acquisition rights	1,690	7,034
Total extraordinary income	1,690	7,034
Profit before income taxes	708,345	537,582
Income taxes - current	256,737	179,420
Income taxes - deferred	(43,543)	(16,740)
Total income taxes	213,193	162,680
Profit	495,152	374,902

(Schedule of cost of sales)

Schedule of cost of sales

Class	Note no.	Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)			Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)		
		Amount (Thousand yen)		Com- position (%)	Amount (Thousand yen)		Com- position (%)
I. Cost of merchandise sold							
1. Beginning merchandise		2,677			2,206		
2. Cost of purchased merchandise		25,605			27,173		
Total		28,283			29,379		
3. Ending merchandise		2,206	26,076	0.3	2,133	27,245	0.3
II. Labor cost			490,923	5.8		546,945	6.2
III. Expenses			7,514,977	89.1		8,029,031	91.6
IV. Subcontract expenses			402,632	4.8		160,839	1.8
Total			8,434,610	100.0		8,764,062	100.0
Transfer to other account			517,526			339,492	
Beginning work-in-process			6,970			6,630	
Ending work-in-process			6,630			8,574	
Cost of sales			7,917,424			8,422,626	

(Notes) *1. Cost of sales is calculated based on the job-order cost system.

*2. Details of the main components are as follows.

(Thousand yen)

Item	Fiscal year ended June 30, 2018	Fiscal year ended June 30, 2019
Receiving agency fees	6,585,984	6,915,221
Invoice postage fees	215,631	222,327
Depreciation	299,521	422,685
Other	413,839	468,794
Total	7,514,977	8,029,031

*3. Details of the transfer to other account are as follows.

(Thousand yen)

Item	Fiscal year ended June 30, 2018	Fiscal year ended June 30, 2019
Software	433,253	305,892
Research and development expenses	84,272	33,599
Total	517,526	339,492

(3) Statement of Changes in Equity

Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)

(Thousands of yen)

	Shareholders' equity							
	Capital stock	Capital surplus		Legal retained earnings	Retained earnings			Total retained earnings
		Legal capital surplus	Total capital surplus		Other retained earnings			
					Reserve for special depreciation	General reserve	Retained earnings brought forward	
Balance at beginning of current period	667,782	3,509,216	3,509,216	22,010	3,130	3,160,000	2,018,191	5,203,332
Changes of items during period								
Reversal of reserve for special depreciation					(1,565)		1,565	-
Dividends of surplus							(944,742)	(944,742)
Profit							495,152	495,152
Purchase of treasury shares								
Disposal of treasury shares							(63,517)	(63,517)
Net changes of items other than shareholders' equity								
Total changes of items during period	-	-	-	-	(1,565)	-	(511,541)	(513,106)
Balance at end of current period	667,782	3,509,216	3,509,216	22,010	1,565	3,160,000	1,506,650	4,690,225

	Shareholders' equity		Valuation and translation adjustments		Share acquisition rights	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	(682,037)	8,698,293	129	129	81,828	8,780,251
Changes of items during period						
Reversal of reserve for special depreciation		-				-
Dividends of surplus		(944,742)				(944,742)
Profit		495,152				495,152
Purchase of treasury shares	(499,953)	(499,953)				(499,953)
Disposal of treasury shares	127,058	63,541				63,541
Net changes of items other than shareholders' equity			356	356	12,583	12,939
Total changes of items during period	(372,894)	(886,001)	356	356	12,583	(873,062)
Balance at end of current period	(1,054,932)	7,812,292	485	485	94,411	7,907,189

Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)

(Thousands of yen)

	Shareholders' equity							
	Capital stock	Capital surplus		Legal retained earnings	Retained earnings			Total retained earnings
		Legal capital surplus	Total capital surplus		Other retained earnings			
					Reserve for special depreciation	General reserve	Retained earnings brought forward	
Balance at beginning of current period	667,782	3,509,216	3,509,216	22,010	1,565	3,160,000	1,506,650	4,690,225
Changes of items during period								
Reversal of reserve for special depreciation					(1,565)		1,565	-
Dividends of surplus							(928,717)	(928,717)
Profit							374,902	374,902
Purchase of treasury shares								
Disposal of treasury shares							(118,556)	(118,556)
Net changes of items other than shareholders' equity								
Total changes of items during period					(1,565)	-	(670,805)	(672,370)
Balance at end of current period	667,782	3,509,216	3,509,216	22,010	-	3,160,000	835,844	4,017,854

	Shareholders' equity		Valuation and translation adjustments		Share acquisition rights	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	(1,054,932)	7,812,292	485	485	94,411	7,907,189
Changes of items during period						
Reversal of reserve for special depreciation						-
Dividends of surplus		(928,717)				(928,717)
Profit		374,902				374,902
Purchase of treasury shares	(198)	(198)				(198)
Disposal of treasury shares	213,792	95,236				95,236
Net changes of items other than shareholders' equity			(583)	(583)	(4,246)	(4,830)
Total changes of items during period	213,594	(458,776)	(583)	(583)	(4,246)	(463,606)
Balance at end of current period	(841,337)	7,353,515	(98)	(98)	90,165	7,443,582

(4) Statement of Cash Flows

(Thousands of yen)

	Fiscal year ended June 30, 2018	Fiscal year ended June 30, 2019
Cash flows from operating activities		
Profit before income taxes	708,345	537,582
Depreciation	316,029	410,013
Interest and dividend income	(10,993)	(10,583)
Loss (gain) on investments in partnership	2,956	(6,956)
Decrease (increase) in operating accounts receivable	196,980	36,072
Decrease (increase) in notes and accounts receivable - trade	(81,992)	(21,683)
Decrease (increase) in inventories	(1,496)	(1,876)
Increase (decrease) in operating accounts payable	(382,777)	(73,555)
Increase (decrease) in notes and accounts payable - trade	47,796	(35,639)
Increase (decrease) in receiving agency deposits	(4,422,413)	2,434,785
Other, net	(289,171)	118,146
Subtotal	(3,916,736)	3,386,304
Interest and dividend income received	10,091	15,894
Income taxes paid	(87,005)	(224,558)
Net cash provided by (used in) operating activities	(3,993,650)	3,177,641
Cash flows from investing activities		
Purchase of securities	(4,499,425)	(2,999,619)
Proceeds from redemption of securities	6,000,000	4,000,000
Purchase of property, plant and equipment	(227,966)	(1,615,609)
Purchase of intangible assets	(482,502)	(362,541)
Payments into time deposits	(580,000)	(100,006)
Proceeds from withdrawal of time deposits	-	600,000
Payments for investments in capital	(25,000)	-
Payments for guarantee deposits	(150,000)	-
Payments for leasehold and guarantee deposits	-	(81)
Net cash provided by (used in) investing activities	35,106	(477,858)
Cash flows from financing activities		
Purchase of treasury shares	(499,953)	(31)
Proceeds from disposal of treasury shares resulting from exercise of subscription rights to shares	37,709	79,148
Cash dividends paid	(943,365)	(927,550)
Net cash provided by (used in) financing activities	(1,405,609)	(848,434)
Net increase (decrease) in cash and cash equivalents	(5,364,153)	1,851,349
Cash and cash equivalents at beginning of period	15,348,149	9,983,995
Cash and cash equivalents at end of period	9,983,995	11,835,344

(5) Notes to Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Additional information)

(Employee Stock Ownership Plan)

In July 2010, we introduced the Employee Stock Ownership Plan (J-ESOP; hereafter, “the program”) with the aim of providing employees with benefits, raising their motivation to boost the share price with higher earnings, and sharing profits with shareholders and employees.

(1) Overview of the program

The program grants retiring employees shares in the Company based on the Share Granting Rules established in advance by the Company.

The Company gives employees points based on their contributions to earnings and their years of service and grants them shares in the Company equivalent to their cumulative points when they retire. These shares are acquired, including the future portion, based on an amount entrusted in advance, and managed separately as assets in trust.

With the introduction of this system, employees’ motivation to work and their interest in share prices rises, and it is also expected to help attract talented employees.

(2) We have applied the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees, etc., through Trusts” (PTIF No. 30, March 26, 2015), but accounting treatment is based on the method previously adopted.

(3) Matters related to Company shares held by the trust

The book value in the trust was ¥89,166 thousand at the end of the previous fiscal year and ¥89,166 thousand at the end of the current fiscal year. The Company shares held by the trust are posted as treasury stock under shareholders’ equity.

The number of outstanding shares at the end of the previous fiscal year was 192,600 and was 192,600 at the end of the current fiscal year. The average number of shares during the fiscal year was 192,600 in the previous fiscal year and 192,600 in the current fiscal year. The number of shares at the end of the fiscal year and the average number of shares during the fiscal year are not included in the treasury stock excluded when calculating per share information.

(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

(1) 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).

(2) 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).

(3) 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

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

The useful lives of the major assets are as follows.

Buildings: 7-39 years

Tools, furniture and fixtures: 3-15 years

(2) Intangible assets

Straight-line depreciation

Software for internal use is amortized based on its internally estimated useful life (3 to 5 years).

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. In the event that pension assets exceed retirement benefit obligations, such excess shall be 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) Provision for point card certificates

We give points to people who have Shiharai-Hisho accounts, and record the amount expected to be used in the future as point reserves to prepare for future obligations in the event that these points are used.

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.

(Changes in presentation)

(Change with Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

The Company has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances effective from the beginning of the fiscal year under review. Accordingly, deferred tax assets (if any) were presented under investments and other assets and deferred tax liabilities (if any) were presented under non-current liabilities.

As a result, ¥9,850 thousand that had been presented in “deferred tax assets” under “current assets” in the Balance Sheets for the previous fiscal year was included in ¥133,906 thousand in “deferred tax assets” under “investments and other assets.”

(Notes to Statement of Income)

“Gain on reversal of share acquisition rights,” which was included in “other” under non-operating income for the previous fiscal year, is separately presented as “gain on reversal of share acquisition rights” from the fiscal year under review due to an increase in its materiality. To reflect this change in presentation, the Company reclassified its financial statements for the previous fiscal year.

As a result, ¥10,587 thousand that had been presented in “other” under non-operating income in the Statement of Income for the previous fiscal year was reclassified into ¥8,897 thousand in “other” and ¥1,690 thousand in “gain on reversal of share acquisition rights” under extraordinary income.

(Notes to Balance Sheet)

* Receiving agency deposits

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

(Notes to Statement of Income)

*1 Approximate ratio of expenses included in selling expenses was 15% in the previous fiscal year, and 16% in the fiscal year under review. Approximate ratio of expenses included in general and administrative expenses was 85% in the previous fiscal year, and 84% in the fiscal year under review.

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

(Thousand yen)

	Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)	Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)
Advertising expenses	147,979	145,778
Directors' compensations	88,261	74,563
Salaries, allowances and bonuses	318,067	299,427
Rent expenses	45,820	46,846
Depreciation	16,507	18,162
Commission fees	93,926	40,373

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

(Thousand yen)

	Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)	Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)
	93,343	74,639

(Notes to Statement of Changes in Equity)

Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)

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	19,400,000	-	-	19,400,000
Total	19,400,000	-	-	19,400,000
Treasury shares				
Common shares (Notes 1, 2, 3)	697,758	429,100	108,602	1,018,256
Total	697,758	429,100	108,602	1,018,256

- (Notes)
1. The increase in treasury shares of common shares by 429,100 shares of common shares is due to the purchase of treasury shares by a resolution of the Board of Directors meeting.
 2. The decrease in treasury shares of common shares by 108,602 shares of common shares is due to the decreases of 95,300 shares associated with the exercise of stock options and the decreases of 13,302 shares due to the granting of stock compensation with restrictions on transfers.
 3. Following the introduction of the Employee Stock Ownership Plan (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 192,600 shares at beginning of period and 192,600 shares at end of period in the Company held by the Trust Account E as of June 30, 2019.

2. Matters related to stock 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	-	-	-	-	-	7,800
	1st series stock acquisition rights in the form of performance-based stock options	-	-	-	-	-	1,094
	3rd series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	7,727
	4th series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	5,160
	5th series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	6,510
	2nd series stock acquisition rights in the form of performance-based stock options	-	-	-	-	-	20,619
	1st series stock acquisition rights in the form of qualified stock options	-	-	-	-	-	27,965

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	6th series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	8,522
Total		-	-	-	-	-	94,411

3. Dividends

(1) Cash dividends paid

(Resolution)	Class of shares	Total cash dividends (Thousand yen)	Dividend per share (Yen)	Record date	Effective date
September 27, 2017 Annual General Meeting of Shareholders	Common shares	944,742	50	June 30, 2017	September 28, 2017

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

(2) Dividends for which the record date falls in the fiscal year under review, but the effective date falls 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
August 17, 2018 Board of Directors meeting	Common shares	928,717	Retained earnings	50	June 30, 2018	September 28, 2018

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

Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)

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	19,400,000	-	-	19,400,000
Total	19,400,000			19,400,000
Treasury shares				
Common shares (Notes 1, 2, 3)	1,018,256	168	182,776	835,648
Total	1,018,256	168	182,776	835,648

(Notes) 1. The increase in treasury shares of common shares by 168 shares of common shares consists of an increase of 29 shares due to the purchase of shares less than one unit and an increase of 139 shares due to reversal of stock compensation with restrictions on transfers in relation to retirement.

2. The decrease in treasury shares of common shares by 182,776 shares of common shares is due to the decreases of 168,400 shares associated with the exercise of stock options and the decreases of 14,376 shares due to the granting of stock compensation with restrictions on transfers.

3. Following the introduction of the Employee Stock Ownership Plan (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 192,600 shares at beginning of period and 192,600 shares at end of period in the Company held by the Trust Account E as of June 30, 2019.

2. Matters related to stock 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	-	-	-	-	-	7,800
	3rd series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	7,727
	4th series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	5,160
	5th series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	6,510
	2nd series stock acquisition rights in the form of performance-based stock options	-	-	-	-	-	17,044
	1st series stock acquisition rights in the form of qualified stock options	-	-	-	-	-	28,388
	6th series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	8,522
Total		-	-	-	-	-	90,165

3. Dividends

(1) Cash dividends paid

(Resolution)	Class of shares	Total cash dividends (Thousand yen)	Dividend per share (Yen)	Record date	Effective date
August 17, 2018 Board of Directors meeting	Common shares	928,717	50	June 30, 2018	September 28, 2018

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

(2) Dividends for which the record date falls in the fiscal year under review, but the effective date falls 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
August 16, 2019 Board of Directors meeting	Common shares	937,847	Retained earnings	50	June 30, 2019	September 26, 2019

(Note) Total amount of dividend includes dividend paid to Trust & Custody Services Bank, Ltd. (Trust Account E) based on the Employee Stock Ownership Plan (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)

	Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)	Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)
Cash and deposits	10,564,002	12,915,351
Securities	999,993	-
Time deposits with deposit terms of more than three months	(1,580,000)	(1,080,006)
Cash and cash equivalents	9,983,995	11,835,344

Cash and cash equivalents include ¥9,393,868 thousand commensurate with receiving agency deposits.

(Segment information, etc.)
[Segment information]

Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)

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

Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)

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

[Related information]

Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)

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

Description is omitted because sales to external customers in Japan account for more than 90% of total net sales stated in the Statement of Income.

(2) Property, plant and equipment

Description is omitted because the amount of property, plant and equipment located in Japan exceeds 90% of the property, plant and equipment on the balance sheets.

3. Information by major customer

(Thousand yen)

Customer name	Net sales	Related segment
Amazon Japan G.K. (Note)	3,165,894	Payment and authentication
Yahoo Japan Corporation	1,593,416	Payment and authentication

(Note) The figure includes sales of ¥2,386 thousand for the previous fiscal year and ¥271 thousand for the fiscal year under review to AMAZON.COM INT'L SALES, INC.

Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)

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

Description is omitted because sales to external customers in Japan account for more than 90% of total net sales stated in the Statement of Income.

(2) Property, plant and equipment

Description is omitted because the amount of property, plant and equipment located in Japan exceeds 90% of the property, plant and equipment on the balance sheets.

3. Information by major customer

(Thousand yen)

Customer name	Net sales	Related segment
Amazon Japan G.K. (Note)	3,388,460	Payment and authentication
Yahoo Japan Corporation	1,579,439	Payment and authentication

(Note) The figure includes sales of ¥271 thousand for the fiscal year under review to AMAZON.COM INT'L SALES, INC.

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

Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)

There is no relevant information.

Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)

There is no relevant information.

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

Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)

There is no relevant information.

Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)

There is no relevant information.

[Information on gain on bargain purchase by reported segment]

Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)

There is no relevant information.

Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)

There is no relevant information.

(Per share information)

(Yen)

	Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)	Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)
Net assets per share	420.62	392.04
Basic earnings per share	26.31	20.02
Diluted earnings per share	26.12	19.92

(Notes) 1. 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 basic earnings 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).

2. The basis of calculation of basic earnings per share and diluted earnings per share is as follows:

	Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)	Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)
Basic earnings per share		
Profit (Thousand yen)	495,152	374,902
Amount not attributable to common shareholders (Thousand yen)	-	-
Profit available to common shares (Thousand yen)	495,152	374,902
Average number of shares of common shares during the period (Shares)	18,817,761	18,730,900
Diluted earnings per share		
Profit (Thousand yen)	-	-
Increase in number of shares of common shares	138,526	85,254
(Stock acquisition rights included in the above)	(138,526)	(85,254)
Overview of residual shares not included in calculation of diluted earnings per share due to lack of dilutive effect	-	-

(Significant subsequent events)

There is no relevant information.

5. Others

(1) Changes to Directors

There is no relevant information.

(2) Others

There is no relevant information.