

Financial Results
for the Three Months Ended September 30, 2018
[Japanese GAAP]
(Non-consolidated)



October 31, 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: November 14, 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 Three Months Ended September 30, 2018 (July 1, 2018 to September 30, 2018)

(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	%
Three months ended								
September 30, 2018	2,473	3.1	142	(34.5)	149	(35.1)	102	(35.3)
September 30, 2017	2,399	(12.2)	217	(54.9)	229	(62.5)	158	(61.2)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
September 30, 2018	5.51	5.48
September 30, 2017	8.40	8.34

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2018	20,484	7,164	34.5	377.06
As of June 30, 2018	16,811	7,907	46.5	420.62

(Reference) Equity: As of September 30, 2018: ¥7,067 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	-				
Fiscal year ending June 30, 2019 (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, 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	
	Million yen	%	Million yen	%	Million yen	%
First half	-	-	-	-	-	-
Full year	-	-	-	-	-	-

	Profit		Basic earnings 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):
 - As of September 30, 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 September 30, 2018: 657,256 shares
 - As of June 30, 2018: 825,656 shares
 - 3) Average number of shares during the period:
 - Three months ended September 30, 2018: 18,659,277 shares
 - Three months ended September 30, 2017: 18,895,775 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

1) Analysis of Business Results

During the three months ended September 30, 2018, the non-face-to-face payment market and its peripheral market on which the Company's business is grounded have shown signs of 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 three months ended September 30, 2018, the third year of the "Medium Term Five-Year Management Plan (July 2016 - June 2021)," the Company reported net sales of ¥2,473 million (up 3.1% year-on-year), operating profit of ¥142 million (down 34.5% year-on-year), ordinary profit of ¥149 million (down 35.1% year-on-year) and profit of ¥102 million (down 35.3% 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 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*.

In addition to Sumitomo Mitsui Banking Corporation, which we have been affiliated with since the beginning of this project, we have completed connections with JAPAN POST BANK Co., Ltd., The Mie Bank, Ltd., The Daisan Bank, Ltd., The Chiba Kogyo Bank, Ltd., THE TAIKO BANK, LTD., The Hokkaido Bank, Ltd., and The Ehime Bank, Ltd. We expect to become affiliated with more banks going forward. In addition, partly due to the banks' requests, we have developed security functions including biometric authentication and real-time monitoring functions for settlement information. Now that these steps have been completed, we will work in collaboration with the affiliated financial institutions to popularize the application and increase the volume of settlement transactions.

In addition to The Kansai Electric Power Co., Inc., our first client to introduce this service, Kyushu Electric Power Co., Inc. and Hokkaido Electric Power Co., Inc., 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 this service. We started development efforts as well to more closely tie *Bus Mori!*, one of our strengths, to *Shiharai-*

Hisho.

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. In addition to the usual smartphone tickets and commuter tickets, we have launched coupon tickets function, *Denshi Mogiri*, and free passes. These functions are steadily expanding.

We are raising recognition for this 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. According to the most recent ratings survey, each broadcast reaches 1,700,000 people, and the number of active users (number of unique users who activate the application once or more per month) has exceeded 20,000. 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

Our record reflects the effectiveness of our investments in stable operations over the past few years. Furthermore, in the recently occurred Hokkaido Eastern Iburi earthquake, we were able to continue our regular services without interruptions thanks in part to three generators and the dedicated efforts of our employees. We have also involved efforts, such as establishing Quality Management Team, expanding our Internal Auditing Unit, mainly the number of system audit personnel, and posting full-time employees to the Sapporo Office, to reinforce the system of the Sapporo Office, which is responsible for system development and stable operations. 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, with a view to investing in 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 starting July 2018) (July 2018 - June 2021)

We will not disclose the initial financial forecast for the fiscal year ending June 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

Total assets as of September 30, 2018 stood at ¥20,484 million. Current assets were ¥18,074 million. This mainly comprises cash and deposits of ¥13,978 million. Cash and deposits include ¥11,363 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 ¥2,409 million. This mainly comprises property, plant and equipment of ¥502 million, intangible assets of ¥1,189 million, and investments and other assets of ¥717 million.

Meanwhile, total liabilities amounted to ¥13,320 million. This mainly comprises receiving agency deposit of ¥11,363 million.

Total net assets amounted to ¥7,164 million. This mainly comprises shareholders' equity of ¥7,066 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 September 30, 2018
Assets		
Current assets		
Cash and deposits	10,564,002	13,978,225
Accounts receivable - trade	539,030	620,156
Operating accounts receivable	36,072	8,281
Securities	1,999,913	1,999,913
Merchandise	2,206	1,920
Work in process	6,630	8,880
Supplies	1,433	1,292
Other	1,322,082	1,456,260
Total current assets	14,471,371	18,074,930
Non-current assets		
Property, plant and equipment	528,130	502,565
Intangible assets	1,105,878	1,189,475
Investments and other assets	705,978	717,483
Total non-current assets	2,339,987	2,409,524
Total assets	16,811,358	20,484,454
Liabilities		
Current liabilities		
Accounts payable - trade	512,434	506,333
Operating accounts payable	73,555	18,959
Receiving agency deposits	6,959,082	11,363,252
Income taxes payable	117,135	65,784
Provision for bonuses	-	37,737
Provision for point card certificates	362	8
Other	1,063,212	1,139,039
Total current liabilities	8,725,783	13,131,115
Non-current liabilities		
Provision for granting of shares	42,407	44,031
Asset retirement obligations	7,049	7,075
Long-term accounts payable - other	119,007	119,007
Other	9,921	18,985
Total non-current liabilities	178,385	189,099
Total liabilities	8,904,169	13,320,215
Net assets		
Shareholders' equity		
Capital stock	667,782	667,782
Capital surplus	3,509,216	3,509,216
Retained earnings	4,690,225	3,747,523
Treasury shares	(1,054,932)	(857,954)
Total shareholders' equity	7,812,292	7,066,568
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	485	510
Total valuation and translation adjustments	485	510
Share acquisition rights	94,411	97,160
Total net assets	7,907,189	7,164,239
Total liabilities and net assets	16,811,358	20,484,454

(2) Statement of Income
(Three months ended September 30)

(Thousands of yen)

	For the three months ended September 30, 2017	For the three months ended September 30, 2018
Net sales	2,399,006	2,473,369
Cost of sales	1,861,317	2,045,012
Gross profit	537,689	428,357
Selling, general and administrative expenses	320,475	286,114
Operating profit	217,214	142,242
Non-operating income		
Interest income	1,229	1,219
Refunded consumption taxes	11,864	-
Gain on investments in partnership	-	3,358
Other	1,511	2,387
Total non-operating income	14,605	6,965
Non-operating expenses		
Loss on investments in partnership	2,026	-
Total non-operating expenses	2,026	-
Ordinary profit	229,793	149,208
Profit before income taxes	229,793	149,208
Income taxes - current	81,240	58,426
Income taxes - deferred	(10,230)	(11,968)
Total income taxes	71,009	46,457
Profit	158,783	102,750

(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)

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting," and relevant Guidances)

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 first quarter of the fiscal year ending June 30, 2019. Accordingly, deferred tax assets are presented under investments and other assets.