

**Financial Results**  
**for the Three Months Ended September 30, 2019**  
**[Japanese GAAP]**  
**(Non-consolidated)**



October 31, 2019

Company name: WELLNET CORPORATION  
 Stock exchange listing: Tokyo Stock Exchange  
 Code number: 2428  
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 Scheduled date of filing quarterly securities report: November 14, 2019  
 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, 2019 (July 1, 2019 to September 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	%
Three months ended								
September 30, 2019	2,456	(0.7)	228	60.5	229	54.2	159	54.9
September 30, 2018	2,473	3.1	142	(34.5)	149	(35.1)	102	(35.3)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
September 30, 2019	8.48	8.45
September 30, 2018	5.51	5.48

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2019	22,580	6,666	29.2	350.83
As of June 30, 2019	18,960	7,443	38.8	392.04

(Reference) Equity: As of September 30, 2019: ¥6,588 million  
 As of June 30, 2019: ¥7,353 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, 2019	-	0.00	-	50.00	50.00
Fiscal year ending June 30, 2020	-				
Fiscal year ending June 30, 2020 (Forecast)		0.00	-	-	-

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

Although the dividend payout ratio will be set at 50% for the fiscal year ending June 30, 2020, the dividend amounts are yet to be determined at this moment since it is impossible to make a reasonable forecast for the financial results.

### 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 a 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, 2019: 19,400,000 shares

As of June 30, 2019: 19,400,000 shares

2) Total number of treasury shares at the end of the period:

As of September 30, 2019: 619,540 shares

As of June 30, 2019: 643,048 shares

3) Average number of shares during the period:

Three months ended September 30, 2019: 18,779,100 shares

Three months ended September 30, 2018: 18,659,277 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, 2020. The forecast will be announced immediately when it becomes possible to make a 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

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 three months ended September 30, 2019, the fourth year of the "Medium Term Five-Year Management Plan (July 2016 - June 2021)," the Company reported net sales of ¥2,456 million (down 0.7% year-on-year), operating profit of ¥228 million (up 60.5% year-on-year), ordinary profit of ¥229 million (up 54.2% year-on-year) and profit of ¥159 million (up 54.9% 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 non-face-to-face payment market, the Company's business domain, is expected to continue achieving a certain level of growth in the future. Furthermore, 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 meeting the shift to paperless and cashless payments.

#### 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 31 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 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 smoothly increased to 312, partly due to the effect of an increase in variation of services, such as expanding the types of tickets usable with smartphones, namely single-trip tickets, coupon tickets, commuter tickets, free passes and so forth, collaboration with Alipay as well as car-mounted tablet PCs. Moreover, we are developing several new services in a plan to foster *Bus Mori!* into a comprehensive cloud service.

Moving forward, we will increase user numbers and payment volumes for both *Shiharai-Hisho* and *Bus Mori!*, expanding the number of affiliated partners.

#### C. Stable system operation

Through the investments in stable operations and reinforcement of the system over the few years, there were no major system failures in these two years.

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 m<sup>2</sup> in Odori Higashi 9-chome, Chuo-ku, Sapporo, in April 2019, aiming for the completion 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 institutions, etc. which have 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 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 at the Sapporo Office. As part of our social contribution activities, we have begun accepting

children in the surrounding neighborhood as well as those of the Company's employees.

#### 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, out of consideration for our shareholders, we set the dividend payout ratio at 50% or more.

#### (2) Explanation of Financial Position

Total assets as of September 30, 2019 stood at ¥22,580 million. Current assets were ¥18,756 million. This mainly comprises cash and deposits of ¥16,433 million. Cash and deposits include ¥13,719 million of receiving agency deposits in money collection business, which is the money kept temporarily by the Company up to the predetermined date of transfer to operators in the following month. Non-current assets amounted to ¥3,824 million. This mainly comprises property, plant and equipment of ¥2,033 million, intangible assets of ¥1,051 million, and investments and other assets of ¥738 million.

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

(Thousands of yen)

	As of June 30, 2019	As of September 30, 2019
(A) Cash and deposits	12,915,351	16,433,503
(B) Receiving agency deposits	9,393,868	13,719,579
(A)-(B) Cash and deposits, net	3,521,483	2,713,924

Meanwhile, total liabilities amounted to ¥15,914 million. This mainly comprises receiving agency deposits of ¥13,719 million.

Total net assets amounted to ¥6,666 million. This mainly comprises shareholders' equity of ¥6,588 million.

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

At this moment, there are many uncertain factors that may impact the actual financial results for the fiscal year ended June 30, 2020. The forecast will be announced immediately when it becomes possible to make a reasonable forecast.

## 2. Financial Statements and Significant Notes

### (1) Balance Sheet

(Thousands of yen)

	As of June 30, 2019	As of September 30, 2019
<b>Assets</b>		
Current assets		
Cash and deposits	12,915,351	16,433,503
Accounts receivable - trade	560,714	613,342
Merchandise	2,133	2,134
Work in process	8,574	16,049
Supplies	1,438	996
Other	1,650,226	1,690,175
Total current assets	15,138,438	18,756,200
Non-current assets		
Property, plant and equipment	2,027,734	2,033,770
Intangible assets	1,080,065	1,051,951
Investments and other assets	714,441	738,540
Total non-current assets	3,822,241	3,824,262
<b>Total assets</b>	<b>18,960,679</b>	<b>22,580,463</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	476,794	469,693
Receiving agency deposits	9,393,868	13,719,579
Income taxes payable	71,416	83,064
Provision for bonuses	-	37,097
Provision for point card certificates	274	248
Other	1,383,065	1,410,599
Total current liabilities	11,325,418	15,720,282
Non-current liabilities		
Provision for share-based remuneration	48,240	48,778
Asset retirement obligations	7,154	-
Long-term accounts payable - other	119,007	119,007
Other	17,276	26,338
Total non-current liabilities	191,678	194,123
<b>Total liabilities</b>	<b>11,517,096</b>	<b>15,914,405</b>
<b>Net assets</b>		
Shareholders' equity		
Share capital	667,782	667,782
Capital surplus	3,509,216	3,509,216
Retained earnings	4,017,854	3,225,734
Treasury shares	(841,337)	(813,879)
Total shareholders' equity	7,353,515	6,588,853
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(98)	(185)
Total valuation and translation adjustments	(98)	(185)
Share acquisition rights	90,165	77,389
<b>Total net assets</b>	<b>7,443,582</b>	<b>6,666,057</b>
<b>Total liabilities and net assets</b>	<b>18,960,679</b>	<b>22,580,463</b>

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

(Thousands of yen)

	For the three months ended September 30, 2018	For the three months ended September 30, 2019
Net sales	2,473,369	2,456,810
Cost of sales	2,045,012	1,987,681
Gross profit	428,357	469,128
Selling, general and administrative expenses	286,114	240,886
Operating profit	142,242	228,241
Non-operating income		
Interest income	1,219	464
Gain on investments in investment partnerships	3,358	-
Gain on forfeiture of unclaimed dividends	-	1,237
Other	2,348	1,545
Total non-operating income	6,926	3,247
Non-operating expenses		
Loss on investments in investment partnerships	-	1,506
Total non-operating expenses	-	1,506
Ordinary profit	149,169	229,983
Extraordinary income		
Gain on reversal of share acquisition rights	39	1,771
Total extraordinary income	39	1,771
Profit before income taxes	149,208	231,754
Income taxes - current	58,426	73,812
Income taxes - deferred	(11,968)	(1,218)
Total income taxes	46,457	72,593
Profit	102,750	159,161



### (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.

(Changes in presentation)

(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, ¥2,387 thousand that had been presented in “other” under non-operating income in the Statement of Income for the previous fiscal year was reclassified into ¥2,348 thousand in “other” and ¥39 thousand in “gain on reversal of share acquisition rights” under extraordinary income.