

**Financial Results
for the Fiscal Year Ended June 30, 2018
[Japanese GAAP]
(Non-consolidated)**



August 7, 2018

Company name: WELLNET CORPORATION

Stock exchange listing: Tokyo Stock Exchange

Code number: 2428

URL: <http://www.well-net.jp/>

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Scheduled date of annual general meeting of shareholders: September 27, 2018

Scheduled date of commencing dividend payments: September 28, 2018

Scheduled date of filing securities report: September 28, 2018

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, 2018 (July 1, 2017 to June 30, 2018)

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

	Net sales	Operating profit	Ordinary profit	Profit
Fiscal year ended	Million yen %	Million yen %	Million yen %	Million yen %
June 30, 2018	9,783 (4.6)	677 (38.3)	708 (42.9)	495 (43.1)
June 30, 2017	10,260 (2.6)	1,099 (46.5)	1,239 (38.3)	869 (35.6)

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary profit to total assets	Operating profit to net sales
Fiscal year ended	Yen	Yen	%	%	%
June 30, 2018	26.31	26.12	6.0	3.6	6.9
June 30, 2017	46.36	45.57	10.2	5.7	10.7

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

Fiscal year ended June 30, 2017: ¥- million

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2018	16,811	7,907	46.5	420.62
As of June 30, 2017	22,457	8,780	38.7	460.36

(Reference) Equity: As of June 30, 2018: ¥7,812 million
As of June 30, 2017: ¥8,698 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, 2018	(3,993)	35	(1,405)	9,983
As of June 30, 2017	2,328	(1,341)	(596)	15,348

2. Dividends

	Annual dividends					Total dividends	Payout ratio	Dividend to net assets
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended June 30, 2017	Yen -	Yen 0.00	Yen -	Yen 50.00	Yen 50.00	Million yen 944	% 107.9	% 10.9
Fiscal year ended June 30, 2018	Yen -	Yen 0.00	Yen -	Yen 50.00	Yen 50.00	Million yen 928	% 190.0	% 11.4
Fiscal year ending June 30, 2019 (Forecast)	Yen -	Yen 0.00	Yen -	Yen 50.00	Yen 50.00			

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	-	-	-	-

* 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, 2018: 19,400,000 shares

As of June 30, 2017: 19,400,000 shares

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

As of June 30, 2018: 825,656 shares

As of June 30, 2017: 505,158 shares

3) Average number of shares during the period:

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

Fiscal year ended June 30, 2017: 18,758,434 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, 2019. The forecast will be announced immediately when it becomes possible to make reasonable forecast.

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1. Overview of Business Results, etc.

(1) Overview of Business Results

During the fiscal year ended June 30, 2018, the markets on which the Company's business is grounded have entered a period of significant change with the progression of FinTech, etc. in addition to the spread of smartphones. Under these circumstances, the Company announced the "Medium Term Five-Year Management Plan (July 2016 - June 2021)" in August 2016 to actively and boldly take on new business opportunities, and has conducted activities to 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, 2018, the second year of the Medium Term Plan, the Company reported net sales of ¥9,783 million (down 4.6% year-on-year), operating profit of ¥677 million (down 38.3% year-on-year), ordinary profit of ¥708 million (down 42.9% year-on-year) and profit of ¥495 million (down 43.1% year-on-year).

(2) Overview of Financial Position

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

Current assets as of June 30, 2018 stood at ¥14,481 million. This mainly comprises cash and deposits of ¥10,564 million, securities of ¥1,999 million, and accounts receivable - trade of ¥539 million. Cash and deposits include ¥6,959 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. Meanwhile, non-current assets amounted to ¥2,330 million. This mainly comprises software of ¥1,104 million and tools, furniture and fixtures of ¥239 million. As a result, total assets amounted to ¥16,811 million.

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

	(Thousand yen)	
	As of June 30, 2017	As of June 30, 2018
(A) Cash and deposits	15,848,163	10,564,002
(B) Receiving agency deposit	11,381,496	6,959,082
(A)-(B) Cash and deposits, net	4,466,667	3,604,919

(Liabilities)

Current liabilities as of June 30, 2018 stood at ¥8,725 million. This mainly comprises receiving agency deposit of ¥6,959 million and deposits received of ¥870 million. Meanwhile, non-current liabilities amounted to ¥178 million. As a result, total liabilities amounted to ¥8,904 million.

(Net assets)

Net assets as of June 30, 2018 stood at ¥7,907 million. This mainly comprises shareholders' equity of ¥7,812 million.

2) Status of cash flows

Cash and cash equivalents (the "funds") as of June 30, 2018 stood at ¥9,983 million.

The status of cash flows as of June 30, 2018 and their contributing factors are as follows.

(Cash flows from operating activities)

Funds used in operating activities for the fiscal year ended June 30, 2018 amounted to ¥3,993 million. The main factor for the increase is profit before income taxes of ¥708 million, while main factors for the decrease are ¥4,422 million decrease in receiving agency deposits due to payment of receiving agency deposits being delayed to the beginning of next month because the year-end date (June 30) was a holiday, and ¥382 million decrease in operating accounts payable.

(Cash flows from investing activities)

Funds provided by investing activities for the fiscal year ended June 30, 2018 amounted to ¥35 million. The main factor for the increase is proceeds from redemption of securities of ¥6,000 million, while main factors for the decrease are purchase of securities of ¥4,499 million, payments into time deposits of ¥580 million and purchase of intangible assets of ¥482 million.

(Cash flows from financing activities)

Funds used in financing activities for the fiscal year ended June 30, 2018 amounted to ¥1,405 million. Main factors for the decrease are cash dividends paid of ¥943 million and purchase of treasury shares of ¥499 million.

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

We will not disclose the initial financial forecast for the fiscal year ending June 2019 so that we can continue with our management policy 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.

2. Management Policy

[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 actively turning the major changes in environment, such as the expectation of the rapid progression of FinTech and others, into new business opportunities.

A. Current status of WELLNET's "FinTech 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 *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., and THE TAIKO BANK, LTD. We expect to become affiliated with more banks going forward. However, in part due to the banks' requests for a stronger level of security, we have developed and implemented security functions requiring considerable investment, including biometric authentication and real-time monitoring functions for settlement information. Now that these steps have been completed, we will work 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 expect to expand it to other power companies going forward. We will also begin activities on a full scale encouraging businesses that have already introduced our Multi Payment Services to also adopt this service. We will begin development efforts this fiscal year to more closely tie *Bus Mori!*, one of our strengths, to *Shiharai-Hisho*, as this will increase the convenience of *Bus Mori!* as well as the settlement volume for *Shiharai-Hisho*.

B. Actively promoting 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, this fiscal year we developed a coupon ticket function and *Denshi Mogiri*, which allows users to complete authentication with their smartphones, as well as free passes. These functions are steadily expanding, with coupon tickets and *Denshi Mogiri* adopted for the Hinokunigo Bus running from Fukuoka and Kumamoto and the bus line for the New Chitose Airport.

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 15,000. 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

The effect of our investments in stable operations over the past few years is apparent in the fact that there were no major accidents in the 36th fiscal year. We also formed Quality Management Team, expanded our Internal Auditing Unit and posted full-time employees to the Sapporo Office. We are actively hiring engineers, including both new graduates and mid-career hires to further reinforce the system of the Sapporo Office, which is responsible for system development and stable operations. We will 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 forming affiliations with universities, etc. with diverse knowledge and technologies and choosing the right course for R&D. We will become further involved with investment in development related to new security and the automation of system operations. We have completed our preparations for establishing a corporate venture capital business.

E. Governance

The Company defines its raison d'etre 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.

F. Activities contributing to local communities

As part of our social contribution, we provided support to many students this year 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. 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.

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.

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, 2017	As of June 30, 2018
Assets		
Current assets		
Cash and deposits	15,848,163	10,564,002
Accounts receivable - trade	457,038	539,030
Operating accounts receivable	233,052	36,072
Securities	2,999,842	1,999,913
Merchandise	2,677	2,206
Work in process	6,970	6,630
Supplies	1,553	1,433
Prepaid expenses	43,295	82,495
Deferred tax assets	4,022	9,850
Other	1,157,095	1,239,587
Total current assets	<u>20,753,711</u>	<u>14,481,221</u>
Non-current assets		
Property, plant and equipment		
Buildings	273,630	284,506
Accumulated depreciation	(129,185)	(136,999)
Buildings, net	144,444	147,507
Structures	9,779	10,459
Accumulated depreciation	(9,016)	(9,181)
Structures, net	763	1,278
Tools, furniture and fixtures	642,664	794,252
Accumulated depreciation	(508,963)	(554,383)
Tools, furniture and fixtures, net	133,700	239,869
Land	136,266	136,266
Construction in progress	273	3,207
Total property, plant and equipment	<u>415,448</u>	<u>528,130</u>
Intangible assets		
Trademark right	1,551	1,332
Software	828,020	1,104,546
Total intangible assets	<u>829,571</u>	<u>1,105,878</u>
Investments and other assets		
Investment securities	206,292	206,804
Long-term prepaid expenses	25,048	49,693
Investments in capital	71,664	93,708
Guarantee deposits	48,562	198,562
Prepaid pension cost	16,023	16,937
Deferred tax assets	86,496	124,056
Other	5,006	6,365
Total investments and other assets	<u>459,094</u>	<u>696,128</u>
Total non-current assets	<u>1,704,114</u>	<u>2,330,137</u>
Total assets	<u>22,457,826</u>	<u>16,811,358</u>

(Thousands of yen)

	As of June 30, 2017	As of June 30, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	464,637	512,434
Operating accounts payable	456,332	73,555
Accounts payable - other	252,644	166,660
Accrued expenses	13,240	19,587
Income taxes payable	-	117,135
Advances received	1,707	951
Deposits received	760,668	870,824
Receiving agency deposits	* 11,381,496	* 6,959,082
Provision for point card certificates	-	362
Other	182,400	5,188
Total current liabilities	13,513,128	8,725,783
Non-current liabilities		
Provision for granting of shares	35,925	42,407
Asset retirement obligations	6,946	7,049
Long-term accounts payable - other	119,007	119,007
Other	2,567	9,921
Total non-current liabilities	164,446	178,385
Total liabilities	13,677,574	8,904,169
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	3,130	1,565
General reserve	3,160,000	3,160,000
Retained earnings brought forward	2,018,191	1,506,650
Total retained earnings	5,203,332	4,690,225
Treasury shares	(682,037)	(1,054,932)
Total shareholders' equity	8,698,293	7,812,292
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	129	485
Total valuation and translation adjustments	129	485
Share acquisition rights	81,828	94,411
Total net assets	8,780,251	7,907,189
Total liabilities and net assets	22,457,826	16,811,358

(2) Statement of Income

(Thousands of yen)

	Fiscal year ended	Fiscal year ended
	June 30, 2017	June 30, 2018
Net sales	10,260,276	9,783,582
Cost of sales	7,673,962	7,917,424
Gross profit	2,586,313	1,866,158
Selling, general and administrative expenses	*1, *2 1,487,153	*1, *2 1,188,247
Operating profit	1,099,160	677,910
Non-operating income		
Interest income	1,828	2,267
Interest on securities	9,816	8,583
Dividend income	129	142
Gain on reversal of provision for contingent loss	39,958	11,864
Refunded consumption taxes	88,436	-
Other	3,659	10,587
Total non-operating income	143,828	33,444
Non-operating expenses		
Interest expenses	0	-
Loss on investments in partnership	3,335	2,956
Other	72	53
Total non-operating expenses	3,408	3,009
Ordinary profit	1,239,580	708,345
Profit before income taxes	1,239,580	708,345
Income taxes - current	314,189	256,737
Income taxes - deferred	55,701	(43,543)
Total income taxes	369,891	213,193
Profit	869,688	495,152

(Schedule of cost of sales)

Schedule of cost of sales

		Fiscal year ended June 30, 2017 (from July 1, 2016 to June 30, 2017)			Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)		
Class	Note no.	Amount (Thousand yen)		Com- position (%)	Amount (Thousand yen)		Com- position (%)
I. Cost of merchandise sold	*2	2,649	25,966	0.3	2,677	26,076	0.3
1. Beginning merchandise		25,994			25,605		
2. Cost of purchased merchandise		28,643			28,283		
Total		2,677			2,206		
3. Ending merchandise		219,508			490,923		
II. Labor cost		7,395,112			7,514,977		
III. Expenses		472,072			402,632		
IV. Subcontract expenses		8,112,660			8,434,610		
Total		440,778			517,526		
Transfer to other account		9,051			6,970		
Beginning work-in-process		6,970			6,630		
Ending work-in-process		7,673,962			7,917,424		
Cost of sales							

(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, 2017	Fiscal year ended June 30, 2018
Receiving agency fees	6,736,751	6,585,984
Invoice postage fees	218,392	215,631
Depreciation	236,386	299,521
Other	203,582	413,839
Total	7,395,112	7,514,977

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

(Thousand yen)

Item	Fiscal year ended June 30, 2017	Fiscal year ended June 30, 2018
Software	420,957	433,253
Research and development expenses	19,821	84,272
Total	440,778	517,526

(3) Statement of Changes in Equity

Fiscal year ended June 30, 2017 (from July 1, 2016 to June 30, 2017)

(Thousands of yen)

	Shareholders' equity							
	Capital stock	Capital surplus		Retained earnings				
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Retained earnings brought forward	Total retained earnings
Balance at beginning of current period	667,782	3,509,216	3,509,216	22,010	4,695	3,160,000	2,076,740	5,263,446
Changes of items during period								
Reversal of reserve for special depreciation					(1,565)		1,565	-
Dividends of surplus							(745,201)	(745,201)
Profit							869,688	869,688
Disposal of treasury shares							(184,601)	(184,601)
Net changes of items other than shareholders' equity								
Total changes of items during period	-	-	-	-	(1,565)	-	(58,549)	(60,113)
Balance at end of current period	667,782	3,509,216	3,509,216	22,010	3,130	3,160,000	2,018,191	5,203,332

	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	(993,464)	8,446,981	(593)	(593)	39,127	8,485,515
Changes of items during period						
Reversal of reserve for special depreciation		-				-
Dividends of surplus		(745,201)				(745,201)
Profit		869,688				869,688
Disposal of treasury shares	311,426	126,825				126,825
Net changes of items other than shareholders' equity			722	722	42,701	43,423
Total changes of items during period	311,426	251,312	722	722	42,701	294,736
Balance at end of current period	(682,037)	8,698,293	129	129	81,828	8,780,251

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

(Thousands of yen)

	Shareholders' equity							
	Capital stock	Capital surplus		Retained earnings				
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Retained earnings brought forward	Total retained earnings
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

(4) Statement of Cash Flows

(Thousands of yen)

	Fiscal year ended	Fiscal year ended
	June 30, 2017	June 30, 2018
Cash flows from operating activities		
Profit before income taxes	1,239,580	708,345
Depreciation	279,396	316,029
Interest and dividend income	(11,773)	(10,993)
Interest expenses	0	-
Loss (gain) on investments in partnership	3,335	2,956
Decrease (increase) in operating accounts receivable	296,015	196,980
Decrease (increase) in notes and accounts receivable - trade	69,565	(81,992)
Decrease (increase) in inventories	2,153	(1,496)
Increase (decrease) in operating accounts payable	(587,619)	(382,777)
Increase (decrease) in notes and accounts payable - trade	(90,400)	47,796
Increase (decrease) in receiving agency deposits	1,815,405	(4,422,413)
Other, net	96,328	(289,171)
Subtotal	3,111,988	(3,916,736)
Interest and dividend income received	5,686	10,091
Interest expenses paid	(0)	-
Income taxes paid	(789,609)	(87,005)
Net cash provided by (used in) operating activities	2,328,064	(3,993,650)
Cash flows from investing activities		
Purchase of securities	(6,498,719)	(4,499,425)
Proceeds from redemption of securities	6,500,000	6,000,000
Purchase of property, plant and equipment	(87,048)	(227,966)
Purchase of intangible assets	(505,601)	(482,502)
Payments into time deposits	(1,000,000)	(580,000)
Proceeds from redemption of investment securities	300,000	-
Payments for investments in capital	(50,000)	(25,000)
Payments for guarantee deposits	-	(150,000)
Net cash provided by (used in) investing activities	(1,341,368)	35,106
Cash flows from financing activities		
Purchase of treasury shares	-	(499,953)
Proceeds from disposal of treasury shares resulting from exercise of subscription rights to shares	124,456	37,709
Proceeds from issuance of share acquisition rights	22,426	-
Repayments of lease obligations	(115)	-
Cash dividends paid	(743,352)	(943,365)
Net cash provided by (used in) financing activities	(596,586)	(1,405,609)
Net increase (decrease) in cash and cash equivalents	390,109	(5,364,153)
Cash and cash equivalents at beginning of period	14,958,039	15,348,149
Cash and cash equivalents at end of period	* 15,348,149	* 9,983,995

(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 ¥89,166,000 at the end of the previous fiscal year and ¥89,166,000 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 192,926 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 (excluding leased assets)

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 (excluding leased assets)

Straight-line depreciation

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

(3) Leased assets

The straight-line method, substituting the lease term with the useful life, assuming no residual value.

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.

(Additional information)

In accordance with the launch of the new "FinTech service," *Shiharai-Hisho*, we began to record provision for point card certificates from the current fiscal year.

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.

(Notes to Balance Sheet)

* Receiving agency deposit

Receiving agency deposit is a deposit 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 14% in the previous fiscal year, and 15% in the fiscal year under review. Approximate ratio of expenses included in general and administrative expenses was 86% in the previous fiscal year, and 85% 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, 2017 (from July 1, 2016 to June 30, 2017)	Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)
Advertising expenses	158,331	147,979
Directors' compensations	103,182	88,261
Salaries, allowances and bonuses	317,227	318,067
Rent expenses	45,978	45,820
Depreciation	41,201	16,507
Commission fees	338,076	93,926

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

	(Thousand yen)	
	Fiscal year ended June 30, 2017 (from July 1, 2016 to June 30, 2017)	Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)
	17,067	93,343

(Notes to Statement of Changes in Equity)

Fiscal year ended June 30, 2017 (from July 1, 2016 to June 30, 2017)

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 (Notes 1, 2)	9,700,000	9,700,000	-	19,400,000
Total	9,700,000	9,700,000	-	19,400,000
Treasury shares				
Common shares (Notes 1, 3, 4, 5)	481,979	481,979	266,200	697,758
Total	481,979	481,979	266,200	697,758

(Notes) 1. The Company conducted a 2-for-1 share split of common shares effective July 1, 2016.
 2. The increase in issued common shares by 9,700,000 shares is due to the share split.
 3. The increase in treasury common shares by 481,979 shares is due to the share split.
 4. The decrease in treasury common shares by 266,200 shares is due to the decreases of 264,800 shares associated with the exercise of stock options, and 1,400 shares associated with the grant by the Employee Stock Ownership Plan (J-ESOP).
 5. 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 97,000 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, 2017.

2. Matters related to stock acquisition rights and treasury shares 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	-	-	-	-	-	10,050
	1st series stock acquisition rights in the form of performance-based stock options	-	-	-	-	-	1,615
	3rd series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	10,073
	4th series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	6,654
	5th series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	8,295
	2nd series stock acquisition rights in the form of performance-based stock options	-	-	-	-	-	22,309
	1st series stock acquisition rights in the form of qualified stock options	-	-	-	-	-	13,818
	Total	-	-	-	-	-	81,828

3. Dividends

(1) Cash dividends paid

(Resolution)	Class of shares	Total cash dividends (Thousand yen)	Dividend per share (Yen)	Record date	Effective date
September 28, 2016 Annual General Meeting of Shareholders	Common shares	745,201	80	June 30, 2016	September 29, 2016

(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 fall 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
September 27, 2017 Annual General Meeting of Shareholders	Common shares	944,742	Retained earnings	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.

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 (Notes 1, 2)	19,400,000			19,400,000
Total	19,400,000			19,400,000
Treasury shares				
Common shares (Notes 1, 3, 4, 5)	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 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 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, 2018.

2. Matters related to stock acquisition rights and treasury shares 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	
	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 fall 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
September 27, 2018 Annual General Meeting of Shareholders	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.

(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, 2017 (from July 1, 2016 to June 30, 2017)	Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)
Cash and deposits	15,848,163	10,564,002
Securities (MMF, etc.)	499,985	999,993
Time deposits with deposit terms of more than three months	(1,000,000)	(1,580,000)
Cash and cash equivalents	15,348,149	9,983,995

Cash and cash equivalents include ¥6,959,082 thousand commensurate with receiving agency deposit.

(Equity in earnings/loss of affiliates)

Fiscal year ended June 30, 2017 (from July 1, 2016 to June 30, 2017)

There is no relevant information.

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

There is no relevant information.

(Segment information, etc.)
[Segment information]

Fiscal year ended June 30, 2017 (from July 1, 2016 to June 30, 2017)

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

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.

[Related information]

Fiscal year ended June 30, 2017 (from July 1, 2016 to June 30, 2017)

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)	3,278,305	Payment and authentication
Yahoo Japan Corporation	1,447,348	Payment and authentication

(Note) The figure includes sales of ¥3,033,117 thousand for the previous fiscal year and ¥2,386 thousand for the fiscal year under review to AMAZON.COM INT'L SALES, INC.

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

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.

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

Fiscal year ended June 30, 2017 (from July 1, 2016 to June 30, 2017)

There is no relevant information.

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

There is no relevant information.

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

Fiscal year ended June 30, 2017 (from July 1, 2016 to June 30, 2017)

There is no relevant information.

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

There is no relevant information.

[Information on gain on bargain purchase by reported segment]

Fiscal year ended June 30, 2017 (from July 1, 2016 to June 30, 2017)

There is no relevant information.

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

There is no relevant information.

(Per share information)

(Yen)

	Fiscal year ended June 30, 2017 (from July 1, 2016 to June 30, 2017)	Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)
Net assets per share	460.36	420.62
Basic earnings per share	46.36	26.31
Diluted earnings per share	45.57	26.12

(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, 2017 (from July 1, 2016 to June 30, 2017)	Fiscal year ended June 30, 2018 (from July 1, 2017 to June 30, 2018)
Basic earnings per share		
Profit (Thousand yen)	869,688	495,152
Amount not attributable to common shareholders (Thousand yen)	-	-
Profit available to common shares (Thousand yen)	869,688	495,152
Average number of shares of common shares during the period (Shares)	18,758,434	18,817,761
Diluted earnings per share		
Profit (Thousand yen)	-	-
Increase in number of shares of common shares	120,179	138,526
(Stock acquisition rights included in the above)	(120,179)	(138,526)
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.