

**Financial Results
for the Six Months Ended December 31, 2020
[Japanese GAAP]
(Non-consolidated)**



February 2, 2021

Company name: WELLNET CORPORATION

Stock exchange listing: Tokyo Stock Exchange

Code number: 2428

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

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Scheduled date of filing quarterly securities report: February 12, 2021

Scheduled date of commencing dividend payments: –

Availability of supplementary briefing material on quarterly financial results: Available

Schedule of quarterly financial results briefing session: Yes

(Amounts of less than one million yen are rounded down.)

1. Financial Results for the Six Months Ended December 31, 2020 (July 1, 2020 to December 31, 2020)

(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
Six months ended December 31, 2020	4,550 (5.6)	336 (29.7)	357 (25.9)	247 (26.3)
December 31, 2019	4,821 (4.6)	478 63.2	482 58.0	335 58.7

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended December 31, 2020	13.14	13.09
December 31, 2019	17.84	17.78

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2020	21,319	7,024	32.6	369.33
As of June 30, 2020	20,074	7,009	34.6	368.95

(Reference) Equity: As of December 31, 2020: ¥6,951 million
As of June 30, 2020: ¥6,936 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended June 30, 2020	Yen -	Yen 0.00	Yen -	Yen 13.15	Yen 13.15
Fiscal year ending June 30, 2021	Yen -	Yen 0.00	Yen -	Yen -	Yen -
Fiscal year ending June 30, 2021 (Forecast)					

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

Although the dividend payout ratio will be set at 50% or more for the fiscal year ending June 30, 2021, the dividend amounts are yet to be determined at this moment since it is impossible to make a reasonable forecast for the financial results. For this reason, “-” has been entered for the year-end and total dividends.

3. Financial Results Forecast for the Fiscal Year Ending June 30, 2021 (July 1, 2020 to June 30, 2021)

At this moment, it is difficult to make any reasonable forecasts of the impact of the spread of the novel coronavirus disease (COVID-19) on the financial results of the fiscal year ending June 30, 2021. It will be announced immediately when it becomes possible to reasonably calculate that impact.

*** 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 December 31, 2020: 19,400,000 shares
 - As of June 30, 2020: 19,400,000 shares
 - 2) Total number of treasury shares at the end of the period:
 - As of December 31, 2020: 577,865 shares
 - As of June 30, 2020: 598,024 shares
 - 3) Average number of shares during the period:
 - Six months ended December 31, 2020: 18,807,344 shares
 - Six months ended December 31, 2019: 18,785,673 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 make any reasonable forecasts of the impact of the spread of COVID-19 on the financial results of the fiscal year ending June 30, 2021. It will be announced immediately when it becomes possible to reasonably calculate that impact.

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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

In the Japanese economy in the six months ended December 31, 2020, social and economic activities were widely restricted across Japan due to the spread of the novel coronavirus disease (COVID-19) progressing to a third wave, while difficult circumstances and an unpredictable outlook, including for the employment environment, continued for all regions in Japan. In nearly all sectors of the economy, corporate earnings have deteriorated while consumer spending has waned, which in turn has negatively affected the employment and personal income environment. While there continues to neither a slowdown to the spread of COVID-19, nor any effective measures to realize that, all movement toward economic recovery is extremely sluggish and the economic outlook continues to be very uncertain.

Even in the non-face-to-face payment market, the Company's business domain, amidst the severe decline in demand for inbound travel as well as Japanese domestic travel, the impact has been substantial on business related to transportation services, such as airlines, buses and railways, especially over the New-Year period. Although there were initial indications of recovery owing to the GoTo travel campaign, the campaign has currently been suspended in response to the effect of the spread of COVID-19, and once again the market continues to struggle with poor earnings.

On the other hand, new initiatives to construct a new lifestyle are increasing in a diverse range of industries, which is an entirely new phenomenon for those industries. Among consumers, not only is everyone dealing with their own transformation of consciousness but also we are seeing changes to the shape of lifestyles and consumer behavior. As part of this, non-face-to-face methods of providing services and purchasing products have markedly increased in comparison with before, and we are seeing an increase in social roles required to support this transition being satisfied by business corporations, particularly in IT. Amid this significant paradigm shift, the Company has continued to engage in activities that promote the priority measures of "Response to the age of electronic money," "Promotion of Bus IT Promotion Solution Project" and "Service support for consumers from the business operator side" under the keywords of "paperless," "digitization."

With respect to business results for the six months ended December 31, 2020, the Company reported net sales of ¥4,550 million (down 5.6% year on year), operating profit of ¥336 million (down 29.7% year on year), ordinary profit of ¥357 million (down 25.9% year on year) and profit of ¥247 million (down 26.3% year on year).

2) Changes in Environment Surrounding the Company and Response Strategy

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, and the Company is promoting collaboration with cloud services, such as content providers, for the shift to paperless and for payments.

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

Payment of bills issued by the Company's billing service can now be made using barcode payments, which is the payment method of *Shiharai-Hisho*, a smartphone payment service compatible with the increasingly cashless society expected in the future. In the infrastructure related industry, starting with The Kansai Electric Power Co., Inc., the service has now been introduced to Kyushu Electric Power Co., Inc., Hokkaido Electric Power Co., Inc., Tohoku Electric Power Co., Inc., Shikoku Electric Power Co., Inc., Hokuriku Electric Power Company, Chubu Electric Power Co., Inc. and The Chugoku Electric Power Co., Inc. In April 2020 at Chubu Electric Power Co., Inc., the first ever implementation in electric power industry in Japan of SMS (short message service) based electronic invoicing of electricity bills was achieved, and we believe that the shift to paperless payments will continue to accelerate going forward. Moreover, in the Hokuriku area, *Shiharai-Hisho* is being utilized for the payment of taxes, etc., and FinTech services that adhere to the lifestyle that the Company is aiming for have commenced.

The Company has become affiliated with 37 banks, including Sumitomo Mitsui Banking Corporation and

JAPAN POST BANK Co., Ltd. However, following a series of large-scale incidents of unauthorized use of fund transfer agent accounts connected with several banks, the Company has temporarily stopped connections with some banks. In October 2020, the company took measures to implement eKYC, which is the most advanced personal identification system currently on the market. However, taking into account the guidelines and other guidance of the supervising authorities and industry bodies, we intend to implement continuous security measures that include discussions with the collaborating financial institutions so that we may reopen and expand interlinking with bank accounts as soon as possible.

Note that of the 37 affiliated banks, currently there are 5 banks with which account linkage continues to be possible and 32 banks for which temporary suspensions apply (as of January 25, 2021).

B. Driving forward our Bus IT Promotion Project

The number of routes that are compatible with the smartphone application *Bus Mori!* introduced in August 2016 has smoothly increased to over 330. On these routes, the types of tickets usable with smartphones, namely smartphone tickets, coupon tickets, commuter tickets, free passes and so forth have expanded. However, demand has fallen sharply due to the effect of COVID-19. Under this environment, the Company has been pushing forward with developing and offering cloud services for the bus industry. In November 2020, we also launched new products such as the *Kusatsu WEB Pass*, which combine a reserved-seat expressway bus ticket with admission to the hot spring resort Kusatsu Onsen.

Bus Mori!, a non-contact service that enables passengers to avoid person-to-person contact at sales windows is showing promise as a countermeasure against the spread of COVID-19 infection. Through that service and others, like smartphone free passes for Nishi-Nippon Railroad and Nishitetsu Bus Kitakyushu, smartphone coupon tickets for Meitetsu Bus and smartphone commuter tickets for WEST JAPAN JR BUS COMPANY, we continue to expand our services. Looking forward, the Company is continuing to pay attention to the trends of public sentiment and the transportation infrastructure industry and develop services aiming for “Total Cloud Services.”

C. Current status of WELLNET's key product, Multi Payment Services

According to the FY2019 Global Economic Survey Concerning Internal and External Integrated Economic Growth Strategy Building (E-Commerce Market Survey) released by the Ministry of Economy, Trade and Industry, the scale of the e-commerce market (B to C) for Japanese consumers increased 7.65% year on year in 2019 to ¥19.4 trillion, and Multi Payment Services are expected to have the potential to grow in the area of non-face-to-face payments. Furthermore, as part of a new initiative of the Company, a multi payment service with payment of electronic premium gift certificates issued by a local government body has been adopted as a new business for Kyushu Electric Power Co., Inc. (*Shihrai-Hisho* is also included as one of the payment methods). In this way, various operators have been adopting the Company's payment services for over 30 years, and going forward, the Company will continue to support operators as a company that can provide total solutions for payment.

D. 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.

The new Sapporo Office scheduled for completion in June 2021 aims to earn the “WELL Certification” Platinum Rank by building an office focused on the health and work environment of our employees. The WELL Certification is an initiative that began in 2014 in the U.S. to evaluate and certify spaces including buildings and offices from the standpoint of human health. It is a cutting edge initiative in Japan, with only a few certifications awarded. This initiative represents an investment in the Company's most important asset,

our employees, and we also believe that it will lead to increased corporate value in the form of increased productivity, and workstyle reforms.

E. Performance forecast and shareholder returns

Because the impact from changes in economic activity due to COVID-19 makes it difficult to make any forecasts at present, the Company will announce a performance forecast promptly as soon as it is reasonably possible to make estimates. Meanwhile, out of consideration for our shareholders, we plan for the dividend payout ratio to be 50% or more.

(2) Explanation of Financial Position

1) Status of assets, liabilities, and net assets

Total assets as of December 31, 2020 stood at ¥21,319 million. Current assets were ¥14,925 million. This mainly comprises cash and deposits of ¥11,447 million. Cash and deposits include ¥9,208 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 ¥6,393 million. This mainly comprises property, plant and equipment of ¥3,599 million, intangible assets of ¥808 million, and investments and other assets of ¥1,986 million.

Meanwhile, total liabilities amounted to ¥14,294 million. This mainly comprises receiving agency deposits of ¥9,208 million and short-term borrowings of ¥1,480 million.

Total net assets amounted to ¥7,024 million. This mainly comprises shareholders' equity of ¥6,951 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, 2020	As of December 31, 2020
(A) Cash and deposits	8,689,868	11,447,892
(B) Receiving agency deposits	6,339,896	9,208,538
(A)-(B) Cash and deposits, net	2,349,972	2,239,354

2) Status of cash flows

Cash and cash equivalents (the "funds") as of December 31, 2020 stood at ¥11,367 million. The status of cash flows and their contributing factors are as follows.

(Cash flows from operating activities)

Funds provided by operating activities amounted to ¥3,068 million. The main factor for the increase is a ¥2,868 million increase in receiving agency deposits.

(Cash flows from investing activities)

Funds used in investing activities amounted to ¥803 million. The main factor for the decrease is ¥773 million used due to an increase in property, plant and equipment.

(Cash flows from financing activities)

Funds provided by financing activities amounted to ¥493 million. The main factor for the increase is a ¥740 million increase in short-term borrowings.

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

As there are many uncertain elements currently affecting business results, the Company will announce the financial results forecast for the fiscal year ending June 30, 2021 when it becomes possible to reasonably estimate the forecast.

2. Financial Statements and Significant Notes

(1) Balance Sheet

(Thousands of yen)

	As of June 30, 2020	As of December 31, 2020
Assets		
Current assets		
Cash and deposits	8,689,868	11,447,892
Accounts receivable - trade	474,856	574,977
Merchandise	2,577	2,825
Work in process	2,884	30,230
Supplies	6,572	811
Deposits paid	4,394,838	2,145,238
Other	932,878	723,497
Total current assets	14,504,476	14,925,474
Non-current assets		
Property, plant and equipment	2,851,274	3,599,540
Intangible assets	876,190	808,078
Investments and other assets	1,842,871	1,986,168
Total non-current assets	5,570,337	6,393,788
Total assets	20,074,813	21,319,263
Liabilities		
Current liabilities		
Accounts payable - trade	454,549	514,130
Short-term borrowings	740,000	1,480,000
Deposits received	4,903,373	2,402,600
Receiving agency deposits	6,339,896	9,208,538
Income taxes payable	210,987	120,312
Provision for bonuses	-	13,437
Provision for point card certificates	5	5
Other	218,483	339,330
Total current liabilities	12,867,295	14,078,353
Non-current liabilities		
Provision for share-based remuneration	54,073	60,574
Asset retirement obligations	-	10,835
Long-term accounts payable - other	119,007	119,007
Other	24,601	25,971
Total non-current liabilities	197,682	216,388
Total liabilities	13,064,977	14,294,741

(Thousands of yen)

	As of June 30, 2020	As of December 31, 2020
Net assets		
Shareholders' equity		
Share capital	667,782	667,782
Capital surplus	3,509,216	3,509,216
Retained earnings	3,551,222	3,538,680
Treasury shares	(788,210)	(764,630)
Total shareholders' equity	6,940,011	6,951,049
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(3,067)	579
Total valuation and translation adjustments	(3,067)	579
Share acquisition rights	72,892	72,892
Total net assets	7,009,836	7,024,521
Total liabilities and net assets	20,074,813	21,319,263

(2) Statement of Income
(Six months ended December 31)

(Thousands of yen)

	For the six months ended December 31, 2019	For the six months ended December 31, 2020
Net sales	4,821,736	4,550,121
Cost of sales	3,920,087	3,840,743
Gross profit	901,648	709,378
Selling, general and administrative expenses	422,764	372,762
Operating profit	478,884	336,615
Non-operating income		
Interest income	579	69
Dividend income	44	-
Gain on investments in investment partnerships	-	8,964
Gain on forfeiture of unclaimed dividends	1,237	1,645
Rental income	1,995	1,640
Subsidy income	-	4,759
Other	1,059	4,292
Total non-operating income	4,916	21,371
Non-operating expenses		
Interest expenses	-	762
Loss on investments in investment partnerships	1,506	-
Total non-operating expenses	1,506	762
Ordinary profit	482,294	357,224
Extraordinary income		
Gain on reversal of share acquisition rights	3,289	-
Total extraordinary income	3,289	-
Profit before income taxes	485,583	357,224
Income taxes - current	140,622	99,052
Income taxes - deferred	9,882	11,096
Total income taxes	150,504	110,148
Profit	335,078	247,075

(3) Statement of Cash Flows

(Thousands of yen)

	For the six months ended December 31, 2019	For the six months ended December 31, 2020
Cash flows from operating activities		
Profit before income taxes	485,583	357,224
Depreciation	176,401	175,725
Interest and dividend income	(623)	(69)
Interest expenses	-	762
Loss (gain) on investments in investment partnerships	1,506	(8,964)
Decrease (increase) in trade receivables	(36,695)	(100,121)
Decrease (increase) in inventories	(6,458)	(21,834)
Increase (decrease) in trade payables	22,971	59,580
Decrease (increase) in deposits paid	(239,600)	2,249,600
Increase (decrease) in deposits received	221,326	(2,500,773)
Increase (decrease) in receiving agency deposits	888,946	2,868,641
Other, net	(97,189)	175,302
Subtotal	1,416,168	3,255,074
Interest and dividends received	3,336	478
Interest paid	-	(628)
Income taxes paid	(54,675)	(186,880)
Net cash provided by (used in) operating activities	1,364,830	3,068,043
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	1,000,000	-
Purchase of property, plant and equipment	(29,731)	(773,068)
Purchase of intangible assets	(98,769)	(79,954)
Proceeds from share of profits on investments in capital	10,500	13,489
Payments of guarantee deposits	(116,947)	-
Proceeds from refund of guarantee deposits	50,081	35,562
Net cash provided by (used in) investing activities	815,132	(803,970)
Cash flows from financing activities		
Proceeds from short-term borrowings	-	740,000
Dividends paid	(935,715)	(246,049)
Net cash provided by (used in) financing activities	(935,715)	493,950
Net increase (decrease) in cash and cash equivalents	1,244,247	2,758,023
Cash and cash equivalents at beginning of period	11,835,344	8,609,855
Cash and cash equivalents at end of period	13,079,592	11,367,878

(4) 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.

(Significant subsequent events)

There is no relevant information.