# Financial Results
# for the Six Months Ended December 31, 2015
# [Japanese GAAP]
# (Non-consolidated)

February 2, 2016

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 filing quarterly securities report: February 15, 2016
Scheduled date of commencing dividend payments: -
Availability of supplementary briefing material on quarterly financial results: None
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, 2015 (July 1, 2015 to December 31, 2015)**

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

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---|---|---|---|---|---|---|---|---|
| Six months ended | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| December 31, 2015 | 5,041 | 18.7 | 1,101 | 20.7 | 1,110 | 21.3 | 743 | 26.6 |
| December 31, 2014 | 4,246 | 14.1 | 913 | 14.1 | 915 | 13.6 | 587 | 16.7 |

| | Net income per share | Diluted net income per share |
|---|---|---|
| Six months ended | Yen | Yen |
| December 31, 2015 | 78.52 | 77.92 |
| December 31, 2014 | 60.38 | 60.13 |

(2) Financial Position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| As of December 31, 2015 | 19,980 | 7,872 | 39.2 | 841.57 |
| As of June 30, 2015 | 19,667 | 8,218 | 41.6 | 856.21 |

(Reference) Equity: As of December 31, 2015: ¥7,833 million
As of June 30, 2015: ¥8,178 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, 2015 | - | 0.00 | - | 50.00 | 50.00 |
| Fiscal year ending June 30, 2016 | - | 0.00 | | | |
| Fiscal year ending June 30, 2016 (Forecast) | | | - | 66.00 | 66.00 |

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

**3. Financial Results Forecast for the Fiscal Year Ending June 30, 2016 (July 1, 2015 to June 30, 2016)**

(% indicates changes from the previous corresponding period.)

| | Net sales | | Operating income | | Ordinary income | | Net income | | Net income per share |
|---|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Full year | 9,600 | 8.0 | 2,000 | 22.1 | 1,920 | 26.3 | 1,260 | 34.3 | 133.30 |

(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):
December 31 2015: 9,700,000 shares
June 30, 2015: 9,800,000 shares

2) Total number of treasury shares at the end of the period:
December 31, 2015: 392,399 shares
June 30, 2015: 247,654 shares

3) Average number of shares during the period:
Six months ended December 31, 2015: 9,472,164 shares
Six months ended December 31, 2014: 9,731,081 shares

* Presentation regarding the implementation status of the quarterly review procedures

These financial results are outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act. At the time of disclosure of these financial results, quarterly review procedures for the financial statements under the Financial Instruments and Exchange Act have not been completed.

* Explanation of the proper use of financial results forecast and other notes

Financial results forecast presented herein is based on the information available as at the date of the announcement of this material, and involves considerable uncertainties. Actual results may differ from the forecast due to changes in business conditions.

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## 1. Qualitative Information on Financial Results for the Period under Review

### (1) Explanation of Business Results

The Japanese economy during the six months ended December 31, 2015 has been on a moderate recovery trend backed by steady corporate performance. However, some cautiousness in future outlook began to emerge and overall personal consumption has remained lacking in strength except for inbound effects and others. Meanwhile, in the EC market, such as product sales and service, where the Company's business is built on, the B to C market has continued sustainable growth and the C to C market has also showed expansion mainly due to the effect of the spread of smartphones.

Under these circumstances, in order to achieve the goals of operating income of ¥2.0 billion and ROE of 15%, which were stated at the launch of the "Medium Term Three-Year Management Plan (July 2013 - June 2016)" announced in August 2013, the Company has promoted and executed various policies in the final year of the Plan.

The core of our Medium Term Three-Year Management Plan is formed by two wheels: the establishment of a business scheme responsible for the next generation, and *"kaizen"* (expanding functions, stable system operation and cost performance improvement). In terms of establishing business schemes, in 2014, we launched an innovative direct sales model for buses, "Bus Mori! NAVI" (a smartphone route search application for consumers), a bus promotion solution, and "Bus Mori! MONTA" (a real-time management service of express bus reservation status for bus companies), and we are entering the phase to validate the effect of these solutions. We are proceeding with research and development of applications for consumers as an essential part of Wellnet's future, and we plan to complete development this summer. With the transition to paperless invoices, the shift towards electronic payment is expected to gain momentum. We will strive to increase performance by introducing solutions that can accurately respond to the expansion of the paperless transition market.

As for "*kaizen*," we are aiming to improve cost performance through automating operations and promoting standardization. We are also promoting other *kaizen* measures for stable operation.

For the six months ended December 31, 2015, the transportation sector including buses and airplanes has progressed steadily, backed by a stable weather condition in the summer compared to the previous year, and the growing trend of the domestic travel market. The B to C market has continued sustainable growth along with the expansion of the C to C market. In addition to the increased handling of existing contracted business operators, we have also actively promoted the cultivation of new business operators. Meanwhile, the decreasing trend continued in the handling of conventional PIN Online Sales Services.

As a result, for the six months ended December 31, 2015, the Company recorded net sales of ¥5,041 million (up 18.7% year-on-year), operating income of ¥1,101 million (up 20.7% year-on-year), ordinary income of ¥1,110 million (up 21.3% year-on-year), and net income of ¥743 million (up 26.6% year-on-year).

From this fiscal year, we will change our conventional disclosure grouped by type of service to "Payment and Accompanying Services." The reason is as follows.

1) With payment as our core business, we are striving to expand its peripheral services. However, compensations are collected almost entirely as "payment commissions," making the distinction between "payment" and "peripheral" difficult, and as the distinction may vary depending on interpretation, it was determined that making disclosure by service is not appropriate.
2) After termination of our large-scale authentication service, the amount of our pure electronic authentication services decreased substantially, and as payments are always involved, we are virtually earning compensations as payment commissions.
3) As our Online Services Business originally makes use of our payment infrastructure with convenience stores, making distinction of assets difficult, it may be positioned as "Payment and Accompanying Services."

(2) Explanation of Financial Position

1) Status of assets, liabilities, and net assets

Total assets as of December 31, 2015 stood at ¥19,980 million. Current assets were ¥18,383 million. This mainly comprises cash and deposits of ¥11,101 million and securities of ¥4,998 million. Cash and deposits include ¥8,729 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 ¥1,597 million. This mainly comprises property, plant and equipment of ¥419 million, intangible assets of ¥447 million, and investments and other assets of ¥730 million.

Meanwhile, total liabilities amounted to ¥12,108 million. This mainly comprises receiving agency deposits of ¥8,729 million and operating accounts payable of ¥1,723 million.

Total net assets amounted to ¥7,872 million. This mainly comprises shareholders' equity of ¥7,832 million.

2) Status of cash flows

Cash and cash equivalents (the "funds") as of December 31, 2015 stood at ¥13,102 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 ¥999 million. The main factor for the increase is income before income taxes of ¥1,110 million, while main factor for the decrease is income taxes paid of ¥347 million.

(Cash flows from investing activities)

Funds used in investing activities amounted to ¥85 million. The main factor for the decrease is purchase of securities of ¥1,898 million, while main factor for the increase is proceeds from redemption of securities of ¥1,900 million.

(Cash flows from financing activities)

Funds used in financing activities amounted to ¥1,105 million. The main factors for the decrease are purchase of treasury shares of ¥629 million and cash dividends paid of ¥475 million.

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

Financial results for the six months ended December 31, 2015 mostly remained within the range of our forecast, and the financial results forecast for the fiscal year ending June 30, 2016 is unchanged.

## 2. Issues Related to Summary Information (Notes)

(1) Adoption of Special Accounting Procedures for Preparing Quarterly Financial Statements

There is no relevant information.

(2) Changes in Accounting Policies, Changes in Accounting Estimates and Retrospective Restatement

There is no relevant information.

## 3. Financial Statements

(1) Balance Sheet

(Thousand yen)

| | As of June 30, 2015 | As of December 31, 2015 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 13,293,918 | 11,101,996 |
| Accounts receivable - trade | 464,908 | 558,464 |
| Operating accounts receivable | 725,439 | 931,525 |
| Securities | 2,999,733 | 4,998,997 |
| Merchandise | 2,741 | 2,554 |
| Work in process | 5,509 | 11,713 |
| Supplies | 1,816 | 1,841 |
| Other | 496,836 | 776,460 |
| Total current assets | 17,990,905 | 18,383,555 |
| Non-current assets | | |
| Property, plant and equipment | 437,979 | 419,221 |
| Intangible assets | 433,431 | 447,817 |
| Investments and other assets | 805,070 | 730,152 |
| Total non-current assets | 1,676,481 | 1,597,192 |
| Total assets | 19,667,387 | 19,980,747 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 434,101 | 534,172 |
| Operating accounts payable | 1,356,850 | 1,723,566 |
| Receiving agency deposits | 8,732,688 | 8,729,949 |
| Income taxes payable | 351,350 | 380,158 |
| Other | 410,007 | 568,659 |
| Total current liabilities | 11,285,000 | 11,936,506 |
| Non-current liabilities | | |
| Provision for granting of shares | 25,314 | 28,358 |
| Asset retirement obligations | 6,745 | 6,795 |
| Long-term accounts payable - other | 119,007 | 119,007 |
| Other | 13,055 | 17,836 |
| Total non-current liabilities | 164,123 | 171,997 |
| Total liabilities | 11,449,123 | 12,108,504 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 667,782 | 667,782 |
| Capital surplus | 3,509,216 | 3,509,216 |
| Retained earnings | 4,651,664 | 4,666,743 |
| Treasury shares | (650,078) | (1,011,083) |
| Total shareholders' equity | 8,178,584 | 7,832,659 |
| Valuation and translation adjustments | 202 | 358 |
| Valuation difference on available-for-sale securities | 202 | 358 |
| Subscription rights to shares | 39,475 | 39,224 |
| Total net assets | 8,218,263 | 7,872,243 |
| Total liabilities and net assets | 19,667,387 | 19,980,747 |

(2) Statements of Income

(Six months ended December 31)

(Thousand yen)

| | For the six months ended December 31, 2014 | For the six months ended December 31, 2015 |
|---|---|---|
| Net sales | 4,246,922 | 5,041,516 |
| Cost of sales | 2,933,388 | 3,560,032 |
| Gross profit | 1,313,533 | 1,481,483 |
| Selling, general and administrative expenses | 400,441 | 379,838 |
| Operating income | 913,091 | 1,101,645 |
| Non-operating income | | |
| Interest income | 6,491 | 5,819 |
| Dividend income | – | 565 |
| Other | 2,347 | 2,610 |
| Total non-operating income | 8,839 | 8,995 |
| Non-operating expenses | | |
| Interest expenses | 76 | 43 |
| Listing-related expenses | 6,000 | – |
| Commission for purchase of treasury shares | – | 71 |
| Total non-operating expenses | 6,076 | 114 |
| Ordinary income | 915,855 | 1,110,526 |
| Income before income taxes | 915,855 | 1,110,526 |
| Income taxes - current | 320,226 | 367,575 |
| Income taxes - deferred | 8,093 | (768) |
| Total income taxes | 328,319 | 366,807 |
| Net income | 587,535 | 743,718 |

(3) Statement of Cash Flows

(Thousand yen)

| | For the six months ended December 31, 2014 | For the six months ended December 31, 2015 |
|---|---|---|
| Cash flows from operating activities | | |
| Income before income taxes | 915,855 | 1,110,526 |
| Depreciation | 90,254 | 102,233 |
| Interest and dividend income | (6,491) | (6,385) |
| Interest expenses | 76 | 43 |
| Decrease (increase) in operating accounts receivable | (38,313) | (206,086) |
| Decrease (increase) in notes and accounts receivable - trade | (137,424) | (93,556) |
| Decrease (increase) in inventories | (3,519) | (6,042) |
| Increase (decrease) in operating accounts payable | (4,684) | 366,716 |
| Increase (decrease) in notes and accounts payable - trade | 106,712 | 113,434 |
| Increase (decrease) in receiving agency deposits | 2,984,527 | (18,295) |
| Other, net | (251,561) | (29,479) |
| Subtotal | 3,655,429 | 1,333,108 |
| Interest and dividend income received | 25,761 | 13,941 |
| Interest expenses paid | (85) | (43) |
| Income taxes paid | (306,492) | (347,101) |
| Net cash provided by (used in) operating activities | 3,374,612 | 999,904 |
| Cash flows from investing activities | | |
| Payments into time deposits | (1,100,000) | (1,100,000) |
| Proceeds from withdrawal of time deposits | 1,100,000 | 1,100,000 |
| Purchase of securities | (2,399,062) | (1,898,456) |
| Proceeds from redemption of securities | 900,000 | 1,900,000 |
| Proceeds from redemption of investment securities | 300,000 | – |
| Purchase of property, plant and equipment | (29,844) | (21,006) |
| Purchase of intangible assets | (67,018) | (66,040) |
| Net cash provided by (used in) investing activities | (1,295,925) | (85,504) |
| Cash flows from financing activities | | |
| Purchase of treasury shares | – | (629,885) |
| Repayments of long-term loans payable | (10,000) | – |
| Cash dividends paid | (455,894) | (475,346) |
| Repayments of lease obligations | (654) | (654) |
| Net cash provided by (used in) financing activities | (466,548) | (1,105,885) |
| Net increase (decrease) in cash and cash equivalents | 1,612,138 | (191,485) |
| Cash and cash equivalents at beginning of period | 15,702,429 | 13,293,652 |
| Cash and cash equivalents at end of period | 17,314,568 | 13,102,167 |

(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.