



AUCNET INC.

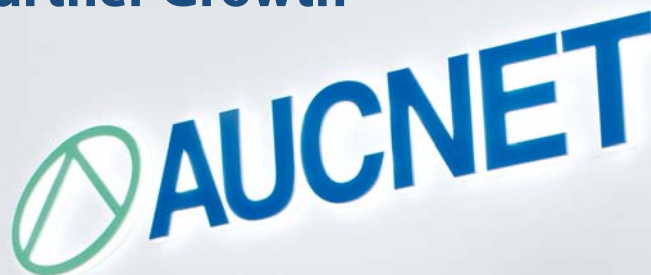
Investors' Notes

Interim Report for the 10th Business Term

January 1, 2017 – June 30, 2017

Securities Code 3964

In Pursuit of True Service With the Goal of Further Growth



Kiyotaka Fujisaki Representative Director and President

On March 29, 2017, AUCNET was listed on the First Section of the Tokyo Stock Exchange.

This accomplishment would not have been possible without the support and encouragement of our membership and many others, for which we are sincerely grateful.

The pages that follow are a report of business results and business conditions for the first half of the fiscal year ending December 31, 2017 (January 1, 2017 – June 30, 2017).

AUCNET was listed on the First Section of the Tokyo Stock Exchange. What hope do you now have for the Company's future?

Back in 1985, before the Internet existed, AUCNET mastered the cutting-edge technology of the day, satellite communications, to launch the start of "Used vehicle TV auctions." This was followed by development of AUCNET's propriety online distribution platform for conducting auctions based on information alone, without the need for a physical auction site. In addition, we strengthened our inspection and quality check for allowing customers to settle transactions with peace of mind, establishing operational expertise that led to steady growth. After making the Company's share private following a management buyout (MBO) in 2008, we leveraged an online distribution platform compatible with a range of goods as we worked hard to diversify our business portfolio and further enhance our management structure

and focused on putting business foundations in place ahead of future expansion in business scope. And in March 2017, AUCNET successfully listed on the First Section of the Tokyo Stock Exchange, embarking on a new growth stage that will accelerate the speed of business scope expansion both domestically and globally.

Taking advantage of a distinctive business model honed over its 32-year history, AUCNET is seeking to provide the public with revolutionary distribution solutions and propose a broad array of options for next-generation distribution. We want to take this opportunity to express our deepest thanks to shareholders for your understanding of AUCNET's business strategy and your unwavering support of our efforts going forward.

What is your assessment and analysis of the Company's business environment and consolidated performance for the first half of the fiscal year ending December 31, 2017?

In terms of business performance for the first half of the year, AUCNET reported net sales of ¥10,029 million, ¥1,874 million in operating income, and profit attributable to owners of parent of ¥1,047 million. We contend one of the biggest successes was that

we held sales and profits to virtually the same levels as the previous fiscal year despite being unable to secure used smartphone distribution volume in the Digital Product Business comparable to that of the same period a year earlier, when

massive demand for phone purchases and replacement had a clear impact. This performance came atop signs of a turnaround in the Automobile Business. This was particularly evident in the used vehicle TV auction side of the Automobile Business, where our efforts to attract listings of late model , low mileage vehicles that are in high demand in the market resulted in both an improved completed contract volume and contract completion rate. As for the coming business environment, along with strong

performance in the Automobile Business projected to continue, the Digital Product Business, where performance faltered somewhat until the second quarter, is expected to see an increase in the circulation of used smartphones in step with the sales launch of popular new phone models in the fourth quarter. From all of this, we predict that we will meet our initial full-year business targets for the fiscal year ending December 31, 2017.

What path do you foresee for the AUCNET Group going forward, and what are your medium- to long-term growth strategies?

Until now, the Group has shaped a trusted membership-based network and achieved a dependable and sustainable flow of goods through a business built on three core Competencies Information Reliability, Optimizing System Platforms and Operational Expertise. What’s more, we have provided six business solutions in the form of (1) IT Auction Business Solution, (2) Inspection and Evaluation, (3) Industry Network, (4) Financial Service, (5) BPO Support, and (6) IT Platform Provision. Our distinctive business model, which enables the provision of these businesses as integrated services, is a key feature and strength of the AUCNET Group.

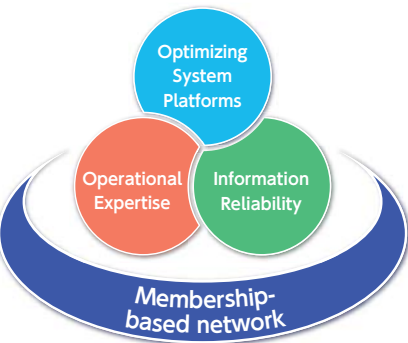
Going forward, the Group seeks to create the next generation in information distribution services to benefit society. As one initiative for realizing this vision, in January 2017, we created a new Product & Service Strategy Department, followed by the establishment of a Distribution Reform Promotion Department in May. Looking ahead, we will work through both organizations

to pursue more efficient distribution to evolve our dominance even further.

Regarding our medium- to long-term outlook, in addition to strengthening and upgrading existing businesses, I envision two specific vectors. The first is developing operations globally. Together with overseas business development targeting China, Singapore, Malaysia and other markets in Asia, our plans entail taking advantage of online distribution platforms to heighten our presence in the global marketplace.

The second vector is to cultivate new business domains. In Japan, due to the ever-shortening product lifecycle in recent years, surplus inventories held by manufacturers and retailers have become a serious concern. Using AUCNET’s groundbreaking approach, which we dub “Re-Marketing,” we hope to breathe new life into Japan’s distribution business by offering a targeted solution to address this issue.

■ AUCNET Business Model



IT Auction Business Solution Provision of auction distribution services leveraging IT in a wide range of fields	Inspection and Evaluation Provision of distribution-related inspections and quality check and product evaluation and assessment services
Industry Network Provision of live auctions in Real-time and proxy bidding services	Financial Service Provision of support services for financing and guarantees
BPO Support Provision of business outsourcing and consulting services	IT Platform Provision Provision of IT platforms based on optimal systems

In closing, do you have a message for shareholders, including the Company’s profit return policy?

At AUCNET, we view the return of profits to shareholders as one of management’s highest priority issues. As we continue to ensure that internal reserves, the source for future business development and capital investment, remains at a sufficient level, our basic policy is to pay stable dividends, with a target consolidated payout ratio of 30%. Based on this policy, we have decided to pay an interim dividend for the current fiscal year of ¥13 per share (¥26 planned for the full year).

As we move forward, AUCNET is committed to taking the sophistication of its business promotion structure a step further by sharing expertise and systems between both businesses and Group companies, with the aim of realizing sustainable growth and improving shareholder value. As a publically listed company, expect great things from AUCNET as we embark on a new pathway to growth.

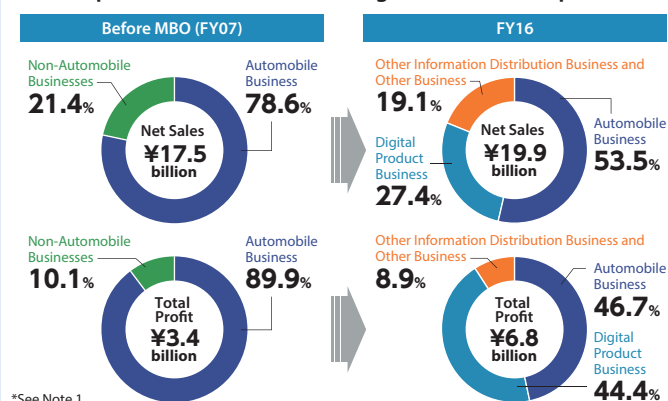
Through structural reforms, we are building a solid and diverse business portfolio, establishing a foundation for growth, and taking on new challenges.

▼ Transformation of AUCNET

Building a Solid and Diverse Business Portfolio

AUCNET has, through the years, diversified its earnings streams by proactively identifying new business segments. While the Automobile Business, anchored by used vehicle TV auctions, accounted for the bulk of earnings prior to the Company's MBO, today we have built a diverse business portfolio covering a wide range of areas, among them used motorcycles, flowers (cut and potted), used luxury brand items, used digital devices (used smartphones, used PCs, etc.), and used medical equipment. By supplementing one another, these commercial goods, each with different market characteristics, are generating stable earnings. In parallel with steps to reinforce these existing businesses, AUCNET is boldly meeting the challenge of entering new domains, and is set to broaden the potential of information distribution services.

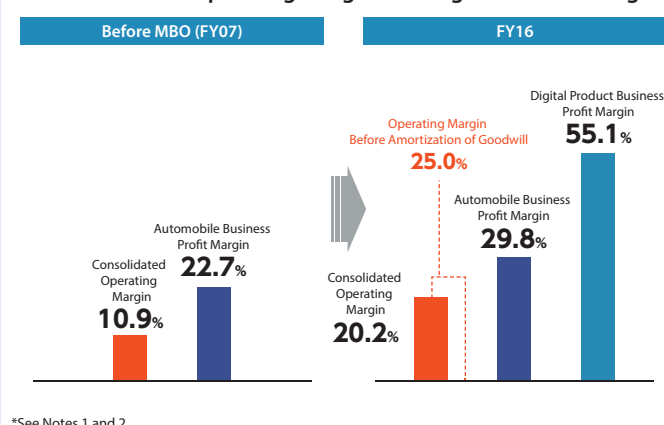
■ Comparison of Net Sales and Segment Profit Composition



Targeting Sustainable Profit Growth

From its 2008 MBO to its public relisting in 2017, AUCNET has focused on putting in place and enhancing its business foundations and other structural reforms in preparation for its next round of anticipated growth. The result has been a steady increase in profitability in each business, with the pre-MBO consolidated operating margin of 10.9% in the fiscal year ended December 31, 2007 having improved to 20.2% for the December 2016 fiscal year (refer to graphs at right). Similarly, in terms of profits, over the three years from the December 2014 fiscal year to the year ended December 2016, ordinary income increased from ¥3.2 billion to ¥4.1 billion, while profit attributable to owners of parent rose from ¥1.2 billion to ¥2.1 billion. In the years ahead, AUCNET will hone its unique business model even further, with the aim of realizing sustainable profit growth.

■ Consolidated Operating Margin and Segment Profit Margin



Notes 1. Segment profits exclude costs, goodwill amortization and other items not attributed to business segments. Segment profits are calculated after cancellation of inter-segment transactions.
2. Consolidated operating margin shown after goodwill amortization.

▼ Growth Strategies

Automobile Business

Strengthen Acquisition of Quality Used Vehicles With High Contract Completion Rates

- Value Up Center (VUC)**
Centers where vehicles to be auctioned are collected, inspected and prepared for sale (7 sites nationwide)
- Special supplier auctions (Kanmuri auctions)**
Auctions that highlight the name of the seller such as large dealer groups, manufacturers, major importers, etc.
- Auctions-in-advance (Sakidori auctions)**
Strengthen relationships with vehicle leasing and rental companies through auctions for fleet vehicles that are still in use
- Expansion of Vehicle Inspection Services**
Subcontracted vehicle inspections for major used vehicle information magazines

Digital Product Business

Expand Distribution Volume through Aggressive Development of Overseas Business

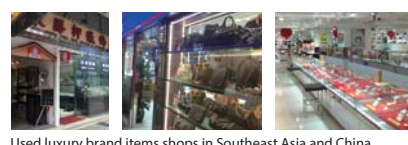
- Expanded Distribution for Used Smartphones**
Distribute used smartphones and other devices in 23 countries across Asia, the EU and the Americas
- Trade-in Distribution Business in China**
Promote used smartphone trade-in distribution business in China on a trial basis



Other Information Distribution Business

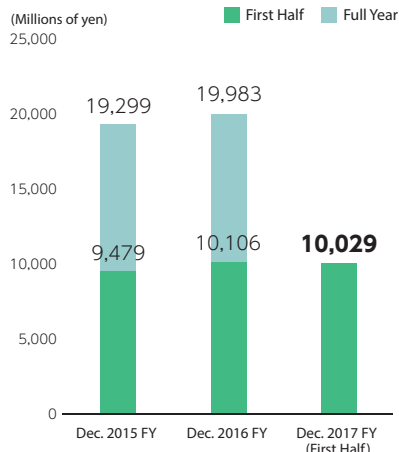
Used Luxury Brand Items Auction Revitalization Overseas Expansion

- Increase Membership Figures and Expand Nationwide Share**
Increase membership base and nationwide market share by targeting franchise chains that buy used products
- Develop Distribution Overseas**
In addition to used luxury brand items distribution targeting buyers in Hong Kong, encourage distribution targeting Southeast Asia, centered on Singapore

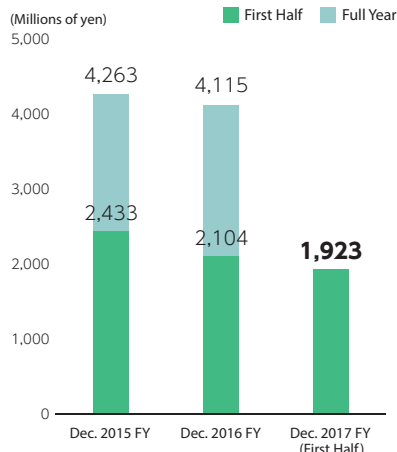


Consolidated Financial Highlights

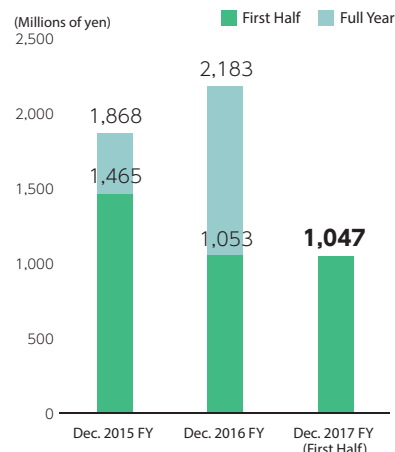
Net Sales



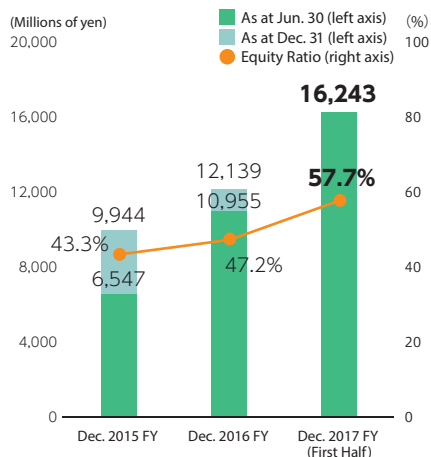
Ordinary Income



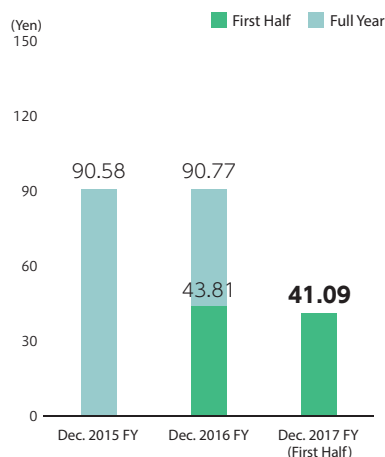
Profit Attributable to Owners of Parent



Net Assets/Equity Ratio



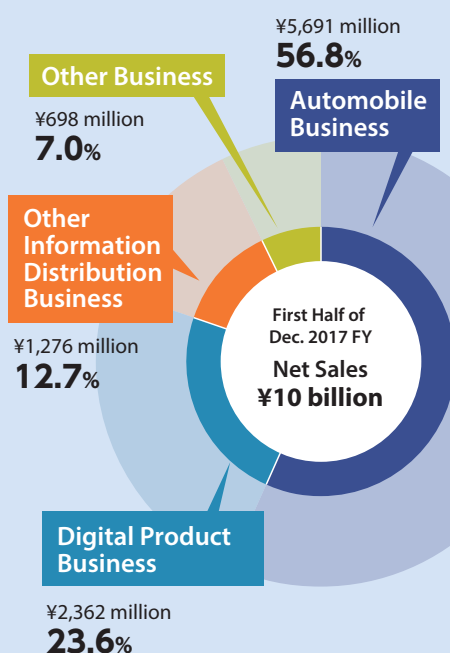
Basic Earnings per Share



Note:
AUCNET conducted a 10-for-1 stock split on July 29, 2015, and a 20-for-1 stock split on July 31, 2016. Consequently, figures for "Basic Earnings per Share" were calculated as if the stock splits had occurred at the beginning of the December 2015 fiscal year.

Information by Business Segment

Comparison of Net Sales Composition by Segment



Automobile Business

In addition to an upturn in automobile market trends, which are highly relevant to this business, the contract completion rate in used vehicle TV auctions rose atop success in attracting vehicles for auction from efforts targeting dealers, rental and lease companies, and traders. In vehicle inspection services, there was an increase in the volume of vehicle inspections performed on an outsourcing basis for physical auction sites and major used vehicle information magazines. As a result, net sales for the first half of the year ending December 31, 2017 were ¥5,691 million (up 5.7% year on year), with operating income at ¥1,727 million (up 5.9% year on year).

Digital Product Business

Backed by rising purchase and replacement demand, and amid steady growth in the number of new overseas buyers and used smartphone distribution volume, all measures to secure distribution volume met with success, leading to higher handling volume year on year. This notwithstanding, the handling commission rate declined, reflecting the move to high-price next-generation models for the major smartphone units in distribution and the surplus of high-quality units in distribution. As a result, net sales for the first half of the year ending December 31, 2017 were ¥2,362 million (down 13.7% year on year), with operating income at ¥1,285 million (down 14.9% year on year).

Other Information Distribution Business

In used motorcycles, we bolstered efforts to attract products for auction from large-scale members and others, particularly members in regional cities. In flowers (cut and potted), we took steps to enhance distribution services tailored to member client needs. In used luxury brand items, we advanced measures targeting franchise alliance stores to promote participation and to expand the number of commercial goods handled. As a result, net sales for the first half of the year ending December 31, 2017 were ¥1,276 million (down 2.2% year on year), with operating income at ¥371 million (up 17.1% year on year).

INFORMATION

Company Overview (As of June 30, 2017)

Name	AUCNET INC.
Establishment	June 29, 1985
Capital	¥1,594 million (as of April 25, 2017)
Number of employees (consolidated)	583 (as of January 31, 2017)
Listing	Tokyo Stock Exchange, First Section
Head office	Aoyama OM Square, 5-8 Kita-Aoyama 2-chome, Minato-ku, Tokyo
Tel. (switchboard)	TEL: +81-3-6440-2500 FAX: +81-3-6440-2510

Executive Officers

Representative Director and President	Kiyotaka Fujisaki	
Directors	Chiaki Fujino Shinichiro Fujisaki	Hisanao Nagashima Nobukazu Tajima
Outside Directors	Seiichiro Umeno	Ikuo Kaminishi
Director (Audit & Supervisory Committee member)	Koji Sasaki	
Outside Directors (Audit & Supervisory Committee members)	Masaaki Ayukawa	Ryozo Ushioda

Stock Information (As of June 30, 2017)

Total number of shares authorized to be issued	110,000,000 shares
Total number of shares outstanding	26,992,000 shares
Number of shareholders	1,990

Major Shareholders

Name	Number of Shares	Shareholding Ratio
FLEX CORPORATION	11,548,800	42.79%
Orient Corporation	2,592,000	9.60%
NAMAI ASSET MANAGEMENT INC	2,000,000	7.41%
Shinichiro Fujisaki	931,000	3.45%
Masahiro Fujisaki	915,000	3.39%
FLEX CO., LTD.	844,800	3.13%
JP MORGAN CHASE BANK 380634	755,600	2.80%
NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT	662,800	2.46%
Kiyotaka Fujisaki	501,600	1.86%
Trust & Custody Services Bank, Ltd.	493,000	1.83%

Shareholder Memo (As of June 30, 2017)

Financial year

January 1 to December 31

Annual shareholders' meeting

Within three months after end of each financial year

Record date for dividends from surplus

Year-end dividends – Dec. 31
Interim dividends – June 30

Number of shares per unit

100 shares

Method of public notice

AUCNET INC. publishes its information in electronic public notices. However, in the event that electronic public notices cannot be provided due to accidents or other unavoidable circumstances, the public notices shall be posted in the Nihon Keizai Shinbun (Nikkei).

URL for public notice

<http://ir.aucnet.co.jp/ja/announcement.html> (Japanese only)

Administrator of shareholder registry

4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo, Japan
Mitsubishi UFJ Trust and Banking Corporation

Office of shareholder registry administrator

4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo, Japan
Stock Transfer Agency
Mitsubishi UFJ Trust and Banking Corporation

Visit the AUCNET Website



AUCNET actively discloses a variety of information for shareholders and investors, including corporate and financial data. Please visit the website at the address below.

<http://www.aucnet.co.jp/>



Point your browser to "For Investors" for more detailed IR data.

<http://ir.aucnet.co.jp/en/>



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