



AUCNET INC.

Investors' Notes

Report for the 10th Business Term

January 1, 2017 – December 31, 2017





AUCNET is “Shaping the Future of Commerce” By Tackling New Challenges

Representative Director and President **Kiyotaka Fujisaki**

Looking back, how would you assess business performance for the fiscal year ended December 31, 2017?

In terms of business performance for the year, the AUCNET Group reported net sales of ¥19,409 million, ¥3,245 million in operating income, and profit attributable to owners of parent of ¥1,767 million. While the Automobile Business and the Other Information Distribution Business turned in robust

performances that surpassed previous-year levels, the Digital Product Business fell short of initial business targets. The cause for this shortfall was a failure to secure either distribution volume or handling commissions as originally expected, due largely to a variety of external environmental factors.

What is your growth strategy for the AUCNET Group going forward?

Until now, the AUCNET 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: Operational Expertise, Information Reliability and Optimizing System Platforms. Today, with “Shaping the Future of Commerce” as our proud brand statement, we are determined to raise both our social and economic value even higher.

Regarding our medium-to long-term growth strategy, in addition to strengthening and upgrading existing businesses, we will focus on developing operations globally and cultivating new business domains. As one step in that

direction, we established a joint venture with a publicly listed corporation in Singapore that will target the Southeast Asian market. As a future initiative, this joint venture will leverage expertise in information distribution honed by the AUCNET Group with sights set on developing an entirely new online B2B market for used luxury brand items between companies, with Singapore as its hub. Also, beginning first with used medical equipment auctions, we seek to expand our business lines in a host of different fields, including the distribution of automated reception and payment terminals for medical clinics (KIOSK) and the provision of connected vehicle fleet management system (KITARO).

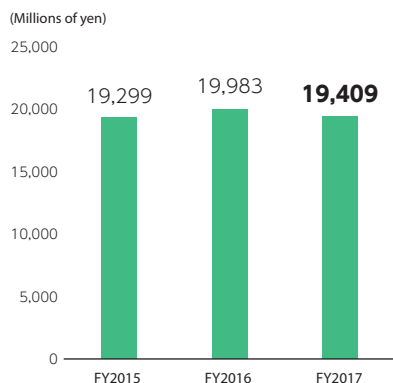
In closing, do you have a message for the Company’s shareholders?

At the AUCNET Group, 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 a dividend for the current fiscal year of ¥26 per share. As we move forward, the AUCNET Group

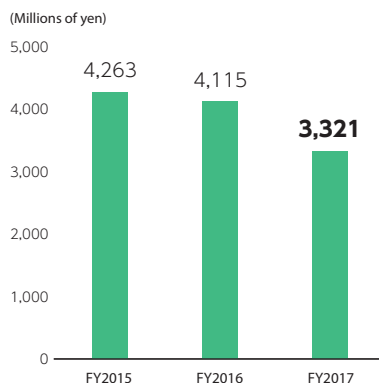
is committed to taking the sophistication of its business promotion structure a step further by sharing expertise and systems between both businesses and Group companies, with the aim of realizing sustainable growth and improving corporate value. To our shareholders, I invite you to expect great things from the AUCNET Group, and ask for your continued support as we look ahead.

Consolidated Financial Highlights

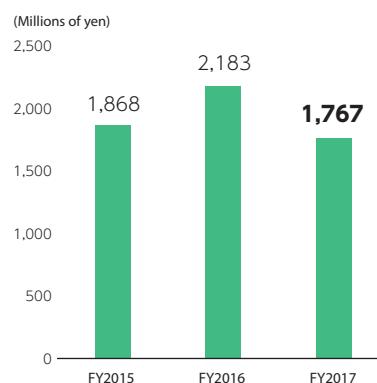
Net Sales



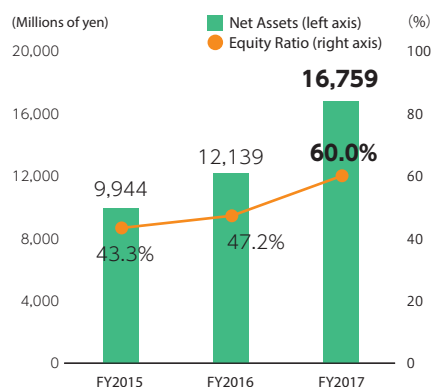
Ordinary Income



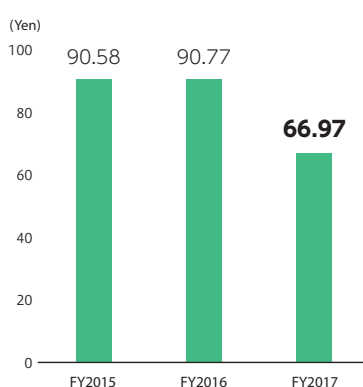
Profit Attributable to Owners of Parent



Net Assets/Equity Ratio



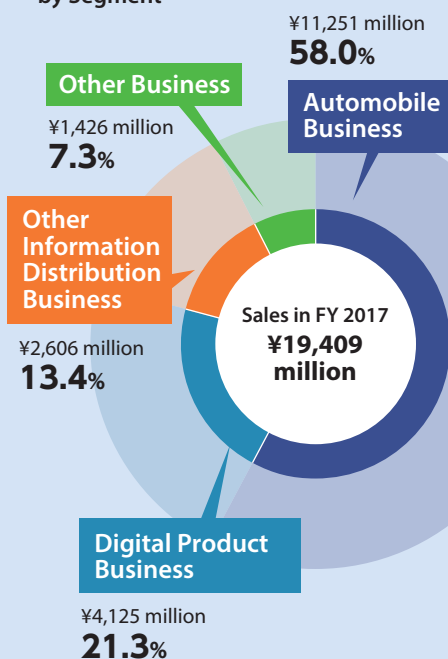
Basic Earnings per Share



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 the upturn in the automotive sector, which has close connections with our business, the contract completion rate for AUCNET's used vehicle auctions increased, owing to successful efforts to encourage dealers, rental and lease companies, large trader etc., to list vehicles. For our live linked auctions and proxy bidding service, the number of vehicles sold at auction increased in line with the promotion to export business members to participate. As a result, net sales for the year ended December 31, 2017 were ¥11,251 million (up 5.3% year on year), with operating income at ¥3,412 million (up 7.2% year on year).

Digital Product Business

Acquisitions of new overseas buyers increased as a result of promotional efforts, which led to a rise in buying power. However, transaction commission rates were significantly below initial projections, because replacement demand for new smartphones was below expectations and the market price of used smartphones declined as a large number of devices was supplied from the U.S. As a result, net sales for the year ended December 31, 2017 were ¥4,125 million (down 24.8% year on year), with operating income at ¥2,036 million (down 32.6% year on year).

Other Information Distribution Business

For used motorcycles, we captured increased demand, particularly from large-scale members and those in regional cities, and we executed campaigns to encourage members to list more items. For flowers (cut and potted), we took improved distribution services to match the needs of our members and enhanced membership acquisition rates by implementing new membership levels. For used luxury brand items, we promoted participation from franchise member stores, resulting in transaction volume increasing. As a result, net sales for the year ended December 31, 2017 were ¥2,606 million (up 2.0% year on year), with operating income at ¥781 million (up 24.9% year on year).

Note: Net sales listed for each segment exclude both internal sales and transfer balances between segments.

The key components of the AUCNET Group are the Automobile Business, which handles used vehicles, the Digital Product Business, responsible for handling used smartphones and used PCs, etc. and the Other Information Distribution Business which together handle used motorcycles, flowers (cut and potted), used luxury brand items, and Other Business. In this section, we focus on the used vehicle auctions conducted by the Automobile Business.

What is AUCNET's Automobile Business?

AUCNET's Automobile Business was first in the world to offer used vehicle auctions aimed at companies without having its own vehicle lot. Through this and four other distinct operations - the shared inventory market, live linked auctions, proxy bidding services, and used vehicle inspection services - we provide total support for the flow of commerce in used vehicles.

Overall Composition of Automobile Business

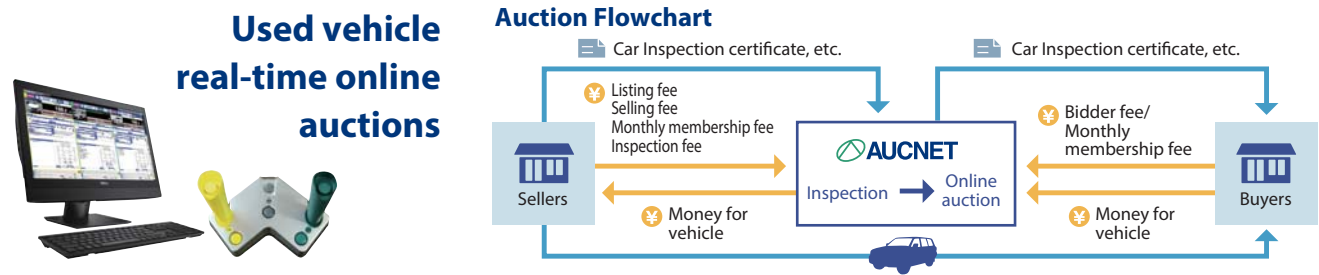
Information Distribution Services			
Used vehicle auctions	Shared inventory market	Tie-ups with physical auction sites	
		Live linked auctions	Proxy bidding services
Operational Expertise			
Used vehicle inspection services	Web systems		Distribution and payment systems
Member Support			
Retail support services		BPO support	

What is the shared inventory market?
A system that allows AUCNET Group member sellers to share inventory with other members online. The inventory remains at the seller's retail premises while other members access it via the online system.

What are live linked auctions?
An online live-link system that enables real-time remote access by AUCNET Group members to participate at physical auction sites, through partnerships between AUCNET and physical auction sites.

What is the proxy bidding service?
An agency service provided by i-Auc, Inc. to buy, sell, settle payment for and transport used vehicles at auctions on behalf of its members.

What is a Used Vehicle Auction?



What Makes AUCNET Different?

1. Different from physical auction sites

Auction Format	Business Development
<p>Typical vehicle auctions: Used vehicle companies actually taking part in the auction and the vehicles are all present at the physical auction site, where a bidding competition, purchase and exchange of money take place.</p> <ul style="list-style-type: none">This format incurs both transportation costs and time constraints, since the seller must transport the vehicle to the site so that the bidder can compete while examining the vehicle.Costs are incurred for auction operations and owning a physical site.	<ul style="list-style-type: none">Since opening a site incurs costs, only a single business line is pursued in most cases.

— The AUCNET Difference —

Takes Place Online
<ul style="list-style-type: none">The purchase and exchange of money for used vehicles nationwide takes place online, solving transportation costs and time constraints.Vehicles can be sold either at storefronts or auctions, creating multiple business opportunities.

Business Development
<ul style="list-style-type: none">AUCNET can take advantage of expertise in information distribution to easily enter other business areas.

2. Different from Online Auctions

Inspection
<p>Typical online auctions: This transaction model usually entails auctions between individuals online.</p> <ul style="list-style-type: none">Vehicle condition is based only on subjective information from the seller.

— The AUCNET Difference —

Third-party Check
<ul style="list-style-type: none">Check performed by objective third party.Evaluation criteria computed based on uniform industry standards.

See next page for details

Unique Initiatives for Continued Growth That Only AUCNET Can Deliver

1. AIS Inspections to Enable Fair and Reliable Used Vehicle Transactions

Each used vehicle has different color, equipment, model year, mileage, wear and tear, etc. No two used vehicles are exactly the same. In the used vehicle trade, accurate inspection ratings are essential to show the true condition of the vehicle and allow an accurate value to be determined. AUCNET, which conducts transactions without viewing the actual vehicles, established AIS INC. a subsidiary specializing in inspections, as a third-party organization to carry out rigorous inspections of used vehicles.

Point 1

Check Over 300 Points

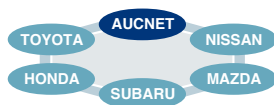
Starting with the exterior and interior, the body, structure and even the frame of each vehicle is meticulously checked. Structural repair history, which can affect vehicle value, is also scrutinized to provide an appropriate rating.



Point 2

Uniform Inspection Standards

With support from the leading Japanese vehicle manufacturers, the AIS inspection system has become a de-facto industry standard as a mark of reliability in the used vehicle industry.



Point 3

Roughly 180 Certified Inspectors Nationwide



The careful and fair inspections carried out by our certified inspectors have earned the trust of many valued members.



What is a Structural Repair History Vehicle?

This refers to vehicles with chassis that have been damaged by accidents or other events, or have been modified in some way. AIS closely examines structural repair history, which can significantly affect vehicle value, to provide a rating for determining a suitable price.

1. Proprietary Inspection System

Vehicle condition is entered into a visual diagram. Our unique algorithm then calculates a rating for the vehicle, and all data is stored and managed on our server.



2. Clear Quality Evaluation

The system generates an inspection report and quality rating that makes it easy to understand the vehicle condition at a glance.



For more details, see the AIS website.



2. Initiatives to Boost Our Auction Sales Rate - The Value Up Center (VUC) as Seller Service Agent

What is VUC?

Providing BPO services to increase vehicle value

VUC's provide vehicle storage and auction preparation BPO (business process outsourcing) services from the time the vehicle is traded-in until it is listed at auction. Services include **AIS inspections, minor repairs, vehicle cleaning, etc.** These services are designed to reduce hassle for members and improve the vehicle's presentation and therefore its value at auction.



VUC Benefits

Members

- ☒ Increases vehicle value
- ☒ Vehicles fetch a higher price at auction

AUCNET

- ☒ More high quality vehicles listed for auction
- ☒ Increases auction sales rate

INFORMATION

Company Overview

(As of December 31, 2017)

Name	AUCNET INC.
Establishment	June 29, 1985
Capital	¥1,672 million
Number of employees (consolidated)	590
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

(As of March 28, 2018)

Representative Director and President		Kiyotaka Fujisaki
Directors	Chiaki Fujino Hisanao Nagashima Nobukazu Tajima	Shunji Sato Shinichiro Fujisaki
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 December 31, 2017)

Total number of shares authorized to be issued	110,000,000 shares
Total number of shares outstanding	27,447,000 shares
Number of shareholders	2,763
Major Shareholders	

Name	Number of Shares	Shareholding Ratio
FLEX CORPORATION	11,548,800	42.08%
Orient Corporation	2,592,000	9.44%
NAMAI ASSET MANAGEMENT INC	2,000,000	7.29%
JP MORGAN CHASE BANK 380634	1,131,400	4.12%
Shinichiro Fujisaki	931,000	3.39%
Masahiro Fujisaki	915,000	3.33%
FLEX CO., LTD.	844,800	3.08%
NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT	749,800	2.73%
Kiyotaka Fujisaki	501,600	1.83%
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	399,600	1.46%

Notes:

1. Share holding ratio is rounded off to two decimal places.
2. The Company does not hold treasury shares.
3. FLEX CORPORATION is an asset management company of the founding family. NAMAI ASSET MANAGEMENT INC is an asset management company of a relative of Mr. Kiyotaka Fujisaki, Representative Director and President of the Company.

Shareholder Memo

(As of December 31, 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 Get to know AUCNET Website

AUCNET has a unique business model which can be difficult to grasp at first.

The information on this web site will help you to understand AUCNET's unique features and strengths.

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



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



Introducing
the features of
the business clearly



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