

Fiscal Year 2016 Second Quarter Consolidated Financial Results (Japanese GAAP)

August 1, 2016

Name of Listed Company: GMO Internet, Inc.

Exchange Listing: Tokyo Stock Exchange Stock Code: 9449 URL: <http://www.gmo.jp/en>

Representative: Masatoshi Kumagai, Group CEO and Founder

Official Contact: Masashi Yasuda, Vice-President and Chief Financial Officer Contact Number: +81-3-5456-2555

Date of Quarterly Report Release: August 9, 2016 Start Date of Dividend Payout: September 23, 2016

Supplementary documents available pertaining to quarterly financial results: Yes

Quarter results presentation: Yes (for institutional investors and analysts)

(all amounts rounded down to the nearest million yen)

1. Consolidated Second Quarter Financial Results in the Year Ending December 2016 (01.01.2016- 06.30.2016)

(1) Consolidated Operating Results (percentages represent year-on-year % change)

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to Owners of the Parent	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
Six months ended								
June 30, 2016	66,707	4.9	8,690	2.3	8,349	-0.3	3,607	-49.2
June 30, 2015	63,571	21.2	8,491	71.0	8,370	69.6	7,096	160.6

(Note) Comprehensive Income June 30, 2016: ¥3,861 million (-52.3%), June 30, 2015: ¥8,099 million (144.2%)

	Net Profit per Share	Net Profit per Share (Diluted)
Six months ended	¥	¥
June 30, 2016	30.97	30.05
June 30, 2015	60.23	59.61

(2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio
As of	¥ millions	¥ millions	%
June 30, 2016	522,346	61,370	7.1
Year Ended 12/2015	554,626	62,156	7.1

(Reference) Shareholders' Equity June 30, 2016: ¥37,295 million FYE12/2015: ¥39,641 million

2. Dividends

	Dividends per Share				
	End of Q1	End of Q2	End of Q3	End of Term	Total
	¥	¥	¥	¥	¥
Year Ended 12/2015	6.00	5.00	7.00	20.00	38.00
Year Ending 12/2016	5.00	5.00			
Year Ending 12/2016 (forecast)			5.00	5.00	20.00

(Note) Revision to forecast during the most recent quarter: no

3. Consolidated Results Forecast for the Year Ending December 2016 (01.01.2016 – 12.31.2016)

(percentages shown represent year-on-year % change)

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to Owners of the Parent		Net Profit per Share
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%	¥
Full Year	135,000	6.9	16,500	11.5	16,500	11.1	7,000	-47.8	59.42

(Note) Revision to forecast during the most recent quarter: no

*Notes

- (1) Changes to significant subsidiaries in the current term: none
- (2) Special accounting treatments used in preparation of financial statements: none
- (3) Changes in accounting policy, changes in accounting estimates, restatements
 - 1. Changes resulting from revisions to accounting policy: yes
 - 2. Changes other than those specified above: none
 - 3. Changes in accounting estimates: none
 - 4. Restatements: none

(4) No. of Outstanding Shares (Common Shares)

- 1. Outstanding shares at term end (inc. treasury)
- 2. Treasury shares at end term end
- 3. Average number of shares in the term

Q2 FYE 12/2016	115,944,677	FYE 12/2015	117,806,777
Q2 FYE 12/2016	1,811	FYE 12/2015	1,811
Q2 FYE 12/2016	116,463,736	Q2 FYE 12/2015	117,804,966

*Quarterly Results Statement Audit

This results statement is subject to review under the Financial Instruments and Exchange Act, at the time this results statement was filed the review was ongoing.

* Note regarding the appropriate use of results forecasts and other items

Projections are based on information available at the time of release and may include judgments based on factors that contain risk and are largely indeterminable. Actual results may differ materially from these projections as a result of business environment and other factors. Please refer to (3) Consolidated results forecast and other forward-looking information on page 9 for details.

Results Presentation for Investors and Analysts: August 1, 2016

Supporting materials and a video of the presentation will be made available on the company's website in English after the event.

Contents

1. Qualitative Information related to Financial Results.	2
(1) Consolidated operating results	2
(2) Consolidated financial condition	10
(3) Consolidated results forecast and other forward-looking information	10
2. Summary of Information related to Notes	11
(1) Changes to significant subsidiaries in the current term	11
(2) Special accounting treatments used in preparation of financial statements	11
(3) Changes in accounting policy, changes in accounting estimates, restatements	11
3. Consolidated Financial Statements	12
(1) Consolidated balance sheet	12
(2) Consolidated statement of income and comprehensive income	14
(3) Consolidated statement of cash flows	16
(4) Notes regarding the consolidated financial statements	18
Notes regarding the going concern assumption	18
Notes regarding changes impacting shareholders' equity	18
Segment data.....	18

1. Qualitative Information related to Financial Results
 (1) Consolidated Operating Results

Overview of Financial Results in the Six Months to June 2016

(Unit: ¥millions)

	Previous Q2	Current Q2	Change	% Change
Net Sales	63,571	66,707	3,135	4.9%
Operating Profit	8,491	8,690	198	2.3%
Ordinary Profit	8,370	8,349	-21	-0.3%
Profit attributable to Owners of the Parent	7,096	3,607	-3,488	-49.2%

Under the corporate slogan “Internet for Everyone” GMO Internet Group focuses resources on high growth Internet markets. Continued growth in the Internet is largely taking place in the mobile space, spurred by increased usage of smartphones, tablets and other mobile devices, the proliferation of Twitter, Facebook, LINE, Instagram and other forms of social media, the progression of cloud technology, as well as the new O2O and C2C markets. The Internet of Things is also significant and the Group recognizes that IoT presents many new business opportunities. GMO Internet management views any growth in the volume of information available on the Internet or in the volume of transactions conducted over the Internet as an opportunity to grow profits.

Amidst a healthy external environment, in the second quarter the Group continued to operate under the continued theme from the previous fiscal year, “strengthening our strengths and enhancing weaker areas with No. 1 products”. (1) The Internet Infrastructure segment, already comprising multiple No. 1 products, invested ¥700 million in promoting C2C handmade market, minne over two consecutive years as aggressive promotions are continued from the previous year with the objective of propelling the service to a strong No. 1 market. (2) The Internet Securities segment continued to expand customer base through a cost leadership strategy. With regard to the UK’s exit from EU, optimization of trade terms resulted in further improvement of profitability. (3) Responding to changes in the market, the Online Advertising & Media segment focused on proprietary product development and sales with the objective of accelerating its shift toward a technology driven business. (4) The Mobile Entertainment segment continued cost control efforts while maintaining the objective of producing a hit title.

Second quarter consolidated net sales increased 4.9% year-on-year to ¥66,707 million, operating profit increased 2.3% to ¥8,690 million, ordinary profit decreased 0.3% to ¥8,349 million, and profit attributable to owners of the parent fell 49.2% to ¥3,607 million as net profit for the second quarter of FY2015 was boosted by gain on sale of shares in GMO CLICK Holdings.

Net Sales and Operating Profit by Segment in the Six Months to June 2016

(Unit: ¥millions)

	Previous Q2	Current Q2	Change	% Change
Internet Infrastructure				
Net Sales	26,371	31,206	4,834	18.3%
Operating Profit	2,344	2,986	641	27.4%
Online Advertising & Media				
Net Sales	20,680	21,868	1,187	5.7%
Operating Profit	783	666	-117	-15.0%
Internet Securities				
Net Sales	15,360	14,542	-818	-5.3%
Operating Profit	4,990	5,397	406	8.1%
Mobile Entertainment				
Net Sales	2,336	1,262	-1,074	-46.0%
Operating Profit	-154	-292	-137	-
Incubation				
Net Sales	771	32	-739	-95.8%
Operating Profit	490	-85	-575	-
Other				
Net Sales	3	83	80	-
Operating Profit	-40	-54	-13	-
Adjustment				
Net Sales	-1,953	-2,287	-333	-
Operating Profit	76	71	-4	-
Total				
Net Sales	63,571	66,707	3,135	4.9%
Operating Profit	8,491	8,690	198	2.3%

◆ Overview of Financial Results in the Three Months to June 2016

(Unit: ¥millions)

	Previous Q2	Current Q2	Change	% Change
Net Sales	30,988	33,533	2,545	8.2%
Operating Profit	4,640	5,032	391	8.4%
Ordinary Profit	4,488	4,796	308	6.9%
Profit attributable to Owners of the Parent	5,234	2,246	-2,987	-57.1%

In the three months to June, the Infrastructure segment performed well amidst an expanding Internet market. Internet Securities segment was also strong as trading volumes remained high.

In the Infrastructure segment, the Group invested ¥260 million in the promotion of C2C handmade market, minne, while in the Internet Securities segment, optimization of trade terms in anticipation of fluctuation in the foreign exchange market due to the UK's exit from EU resulted in further improvement of profitability

As a result, net sales, and operating and ordinary profits reached record highs. Net profit decreased as gain on sale of shares in GMO CLICK Holdings was included in net profit for the second quarter of FY2015.

Net Sales and Operating Profit by Segment in the Three Months to June 2016

(Unit: ¥millions)

	Previous Q2	Current Q2	Change	% Change
Internet Infrastructure				
Net Sales	13,330	15,882	2,552	19.1%
Operating Profit	1,216	1,595	379	31.2%
Online Advertising & Media				
Net Sales	9,076	10,363	1,287	14.2%
Operating Profit	219	216	-2	-1.0%
Internet Securities				
Net Sales	7,838	7,808	-30	-0.4%
Operating Profit	2,803	3,318	515	18.4%
Mobile Entertainment				
Net Sales	1,056	572	-484	-45.9%
Operating Profit	-92	-69	22	-
Incubation				
Net Sales	672	27	-644	-95.9%
Operating Profit	481	-35	-517	-
Other				
Net Sales	2	44	41	-
Operating Profit	-20	-21	-1	-
Adjustment				
Net Sales	-989	-1,165	-176	-
Operating Profit	33	28	-5	-
Total				
Net Sales	30,988	33,533	2,545	8.2%
Operating Profit	4,640	5,032	391	8.4%

Segment results for the second quarter are as below. Effective January 1, 2016, standards for the expense allocation were revised in order to more appropriately evaluate segment performance. Reportable segments for the second quarter of FY2015 are also presented based on the new allocation standards.

Segment Report

1) Internet Infrastructure

The Internet Infrastructure segment provides the basic Internet services required to operate a business or communicate information in an online environment. Domain, hosting & cloud, security, ecommerce solutions, and payment - the five major businesses in this segment – each hold top share in their respective markets in Japan. In addition the segment includes consumer Internet provider services. The following is a breakdown of results in each of the businesses comprising this segment.

i. Domain

As a gateway to the Group's infrastructure segment, the domain business continued to actively grow customer base with a low-pricing strategy. Domain registration and renewals grew 19.5% to 1.37 million, and total domains under management rose 7.8% to 5.57 million. Net sales grew 28.6% year-on-year to ¥1,949 million partly due to consolidation of GMO Brights Consulting Inc. in the fourth quarter of FY2015.

ii. Hosting & Cloud

The hosting & cloud business has responded to growing sophistication and diversification of client needs through cloud-based, dedicated, shared and VPS offerings under a multi-brand strategy. In the

external environment we saw rising demand for cloud hosting services over traditional hosting. GMO AppsCloud, a cloud based hosting solution optimized for mobile game developers and operators grew along with general cloud hosting services.

As a result, web hosting contracts increased 3.0% year-on-year to 776 thousand and net sales increased 0.3% year-on-year to ¥3,445 million.

iii. Ecommerce solutions

Ecommerce solutions comprises SaaS based services for online stores and C2C handmade market, minne. In an expanding market, the focus in SaaS based services continued to be on enhancement of service functionality and support for ecommerce businesses including hosting seminars and events. Significant investment was channeled into live events and other promotion of minne, as well as improving the C2C market's smartphone app.

As a result, the number of paid stores increased 3.3% year-on-year to 75 thousand and total transaction volume rose 12.4% to ¥65.4 billion, while in minne, transaction volume rose 120.0% to ¥2.04 billion. Ecommerce solutions reported net sales of ¥1,973 million (36.9% year-on-year increase).

iv. Security

With the global expansion of security brand "GlobalSign" operated by GMO GlobalSign K.K., a consolidated subsidiary of GMO CLOUD K.K., direct sales targeting large corporations and active sales partners drove market share growth both in Japan and overseas. Security reported net sales of ¥1,127 million (0.9% year-on-year decrease), with overseas sales ratio exceeding 60%.

v. Payment

Payment services, operated mainly by GMO Payment Gateway, offer payment agency services for credit cards, etc. The market environment has been favorable as ecommerce continued to expand and progress into new fields beyond online sales. In the current quarter, the focus remained on growing number of transactions and transaction volume, with continued effort to support customers (merchants) in expanding sales through expansion of transaction lending, early remittance services, and deferred payment.

As a result, at the end of the second quarter, the number of merchants increased 26.1% year-on-year to 70.2 thousand and transaction volume grew 21.7% year-on-year to ¥539 billion. Continued growth of payment services as well as the money services business contributed to net sales growth of 37.2% year-on-year to ¥2,983 million.

vi. Provider

This sub-segment operates Internet Provider Services for consumers. Under the favorable external environment with the penetration of mobile internet, number of mobile wifi users grew 10.8% to 373 thousand as a result of recent cost effective web marketing. Net sales grew 26.6% year-on-year to ¥3,272 million.

Market share was expanded in each of the key Internet Infrastructure businesses in the period under review and overall net sales increased a significant 19.1% year-on-year to ¥15,882 million, and operating profit increased 31.2% year-on-year to ¥1,595 million even with ¥260 million of investment in the promotion of C2C handmade market, minne.

2) Online Advertising & Media

The Online Advertising & Media segment provides marketing solutions for online businesses. The following is a breakdown of results in each of the businesses comprising this segment.

i. Online Advertising

This sub-segment provides comprehensive online advertising services including advertisement agency and ad platform provision services. Trends in the online advertising market include a shift from

managed advertising placement toward listing and other ad network products using ad technology.

In the second quarter, sales of proprietary products such as ad network for smartphones “AkeNe” and recommendation widget “TAXEL” have started.

As a result, net sales in online advertising increased 16.5% to ¥6,112 million.

ii. Internet Media

This sub-segment provides advertising space through operation of its own media and marketing support services. Further improvement of the smartphone capability contributed to favorable performance mainly in ecommerce media “Point Town.”

As a result, net sales in this sub-segment increased 7.3% year-on-year to ¥3,540 million.

Overall, in the Online Advertising & Media segment, net sales totaled ¥10,363 million (14.2% year-on-year increase). Operating profit fell 1.0% year-on-year to ¥216 million. The segment will continue to invest in an accelerated technology shift with a focus on development and sale of proprietary products.

3) Internet Securities

The Internet Securities segment operates consumer financial services. Through improving usability for customers, the segment has worked to increase number of accounts, customer assets held, and transaction volume.

In the current quarter, number of FX accounts grew 8.4% year-on-year to 615 thousand, while number of Securities accounts grew 15.0% year-on-year to 291 thousand. FX trading volume exceeded ¥300 trillion, as the UK’s exit from EU contributed to a temporary increase in volatility in the markets. With regard to the UK’s exit from EU, optimization of trade terms in anticipation of fluctuation in the foreign exchange market resulted in further improvement of profitability.

Overall, net sales in the Internet Securities segment totaled ¥7,808 million (0.4% year-on-year decrease) and operating profit was ¥3,318 million (18.4% year-on-year increase).

4) Mobile Entertainment

This segment comprises smartphone and online game development and operations. In the second quarter, while revenue from existing titles including Minerva Knights continued on a downward trend, an in-house developed title “Chain Heroes” released in FY2015 also did not achieve expected net sales.

As a result, in the Mobile Entertainment segment, net sales fell 45.9% to ¥572 million, and operating loss was ¥69 million (¥92 million of operating loss in the second quarter of FY2015). As narrowing titles contributed to reduction of loss, we will continue our efforts to create hit titles through cost control, internalization of all operations and development, and accumulation of operation know-how.

5) Incubation Segment

The Incubation segment invests in expanding business and building enterprise value in Internet-related companies. In the current quarter, as there were no sales of major investments, revenue was ¥27 million (95.9% year-on-year decrease) and operating loss was ¥35 million (¥481 million of operating profit reported in the second quarter of FY2015).

(Reference1) Changes in Operating Results and Financial Condition by Quarter

(Unit: ¥millions)

	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Net Sales	30,988	31,263	31,502	33,173	33,533
Operating Profit	4,640	3,584	2,728	3,657	5,032
Ordinary Profit	4,488	3,585	2,901	3,552	4,796
Profit attributable to Owners of the Parent	5,234	1,457	4,865	1,361	2,246
Total Assets	555,055	547,192	554,626	560,766	522,346
Shareholders' Equity	34,950	35,682	39,641	36,138	37,295

(Reference2)

Table: Quarterly Results by Segment

I Net Sales by Segment		(Unit: ¥millions)				
		Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Internet Infrastructure						
Provider		2,584	2,751	2,941	3,057	3,272
Domain		1,516	1,490	1,727	1,939	1,949
Hosting & Cloud		3,436	3,465	3,539	3,430	3,445
Ecommerce Solutions		1,442	1,635	1,887	1,883	1,973
Security		1,137	1,031	1,174	1,140	1,127
Payment		2,174	2,521	2,649	2,908	2,983
Other		1,039	1,246	979	962	1,131
Total		13,330	14,141	14,899	15,323	15,882
Online Advertising & Media						
Online Advertising		5,246	5,587	6,237	6,865	6,112
Internet Media		3,300	3,263	3,427	3,883	3,540
Internet Research & Other		529	705	669	754	711
Total		9,076	9,556	10,333	11,504	10,363
Internet Securities						
Total		7,838	7,681	6,762	6,734	7,808
Mobile Entertainment						
Total		1,056	981	780	690	572
Incubation						
Total		672	8	12	5	27
Sub total		31,974	32,370	32,788	34,256	34,654
Other		2	2	1	39	44
Adjustment		-989	-1,109	-1,288	-1,122	-1,165
Net Sales		30,988	31,263	31,502	33,173	33,533

II Operating Profit by Segment

		Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Internet Infrastructure		1,216	1,005	961	1,390	1,595
Online Advertising & Media		219	267	151	449	216
Internet Securities		2,803	2,477	2,198	2,079	3,318
Mobile Entertainment		-92	-132	-467	-222	-69
Incubation		481	-39	-118	-49	-35
Sub total		4,627	3,578	2,724	3,647	5,025
Other		-20	-26	-25	-32	-21
Adjustment		33	32	28	43	28
Operating Profit		4,640	3,584	2,728	3,657	5,032

(Reference3)

Description of businesses in each segment

Business Segment		Main Operations
Internet Infrastructure	Domain	<ul style="list-style-type: none"> • Domain registration services include Onamae.com, MuuMuu Domain, VALUE DOMAIN. Provision of domain name registrations (.com, .net, .jp .nagoya, .tokyo, .yokohama etc.)
	Hosting & Cloud	<ul style="list-style-type: none"> • Provision, operation, management, and maintenance of dedicated, shared, VPS and cloud-based web hosting services including Onamae.com Rental Server, GMO AppsCloud, ConoHa by GMO, GMO Cloud VPS, GMO Cloud Altus, GMO Cloud Private, Lolipop, heteml, Sqale and 30days Album
	Ecommerce Solutions	<ul style="list-style-type: none"> • SaaS based services for online store building including Color me shop! MakeShop, and Jugem Cart • Operation of online shopping mall Calamel etc. • Operation of handmade marketplace, minne, tetote • Operation of ecommerce/O2O support services • Web design, operational support and system consulting
	Security	<ul style="list-style-type: none"> • DomainSSL, OrganizationSSL, other SSL certificates, code signing certificates, PDF document signing, client certificates and other digital certificate services
	Payment	<ul style="list-style-type: none"> • GMO Payment Gateway services including PG Multi-Payment Service and payment processing services for the public sector
	Provider	<ul style="list-style-type: none"> • GMO TokuToku BB, interQ MEMBERS, ZERO, and other Internet provider services.
Online Advertising & Media	Online Advertising	<ul style="list-style-type: none"> • Listing and mobile (GMO SmaAD) ad networks, search engine advertising, affiliate advertising, reward advertising • Advertising planning and production
	Internet Media	<ul style="list-style-type: none"> • Development and operation of blog services yaplog! and JUGEM, Internet community services including freeml, point rewards service, PointTown, and group discount website, Kumapon. Development and operation of smartphone apps including fashion sharing app, Coordisnap. Ad distribution to own media. • SEM Media: JWord, sales of JWord, Japanese keywords.
	Internet Research & Other	<ul style="list-style-type: none"> • Provision of Internet research systems, management and operation of online research panel (GMO Research Cloud Panel)
Internet Securities	Internet Securities	<ul style="list-style-type: none"> • Operation of online securities trading, FX trading services etc.
Mobile Entertainment	Mobile Entertainment	<ul style="list-style-type: none"> • Smartphone game development, operation & support • Online game development and operation
Incubation	Venture Capital	<ul style="list-style-type: none"> • Investment in private Internet startups.

(2) Consolidated Financial Condition
Assets, Liabilities and Shareholders' Equity

Assets

At the end of the second quarter of FY2016 (June 30, 2016), assets decreased ¥32,279 million (5.8%) from the end of the previous fiscal year to ¥522,346 million. Significant factors included an increase in intangible fixed assets (other) mostly due to the acquisition of the rights to operate the .shop domain and a decrease in assets in the Securities segment of ¥46,040 million (10.9%) due to fluctuations in customer assets (deposits, margin transaction assets, short-term security deposits, and variation margin paid).

Liabilities

At the end of the second quarter, liabilities decreased ¥31,493 million (6.4%) from the end of the previous fiscal year to ¥460,976 million. Fluctuations in liabilities are chiefly attributable to an increase in interest bearing debt of ¥28,749 million (72.2%) and fluctuations in customer assets (deposits received, margin transaction liabilities, security deposits, and variation margin received) in the Securities segment, resulting in a decrease in liabilities of ¥56,697 million (14.9%).

Net Assets

At the end of the second quarter, net assets decreased ¥786 million (1.3%) from the end of the previous fiscal year to ¥61,370 million. Movements in net assets included a decrease of ¥2,265 million (59.0%) in capital surplus following the retirement of treasury shares, and an increase of ¥671 million (2.2%) in earned surplus (profit attributable to owners of the parent totaling ¥3,607 million and dividend payments of ¥2,935 million).

Cash Flow

At the end of the second quarter of FY2016 (June 30, 2016), cash and equivalents increased ¥1,358 million (1.8 %) from the end of the previous fiscal year to ¥76,287 million. The following is a summary of cash flow activity in the period under review.

Cash Flow from Operating Activities

Outflow in operating activities was ¥15,047 million (inflow of ¥5,880 million in the previous corresponding term). Major items included net profit before adjustment for tax etc. (¥8,197 million), depreciation (¥2,119 million), an increase in assets of the Internet Securities segment due to an increase in customer assets (¥10,656 million), corporate tax payments (¥7,762 million), and a decrease in trade payables (¥3,261 million).

Cash Flow from Investing Activities

Outflow from investing activities totaled ¥7,814 million (inflow of ¥7,484 million in the previous corresponding term). Contributing factors chiefly included cash inflow from a net decrease in term deposit (¥900 million), and cash outflow from acquisition of intangible fixed assets including acquisition of rights to operate the .shop domain (¥5,856 million) and acquisition of investment securities (¥1,993 million).

Cash Flow from Financing Activities

Inflow from financing activities totaled ¥24,954 million (inflow of ¥1,042 million in the previous corresponding term). Significant items include cash outflow from dividend payments (¥2,928 million), redemption of corporate bonds (¥2,600 million), and acquisition of treasury shares (¥2,236 million), and cash inflow from changes in short term debt and long term debt for the purpose of improving short-term liquidity (¥31,352 million).

(3) Qualitative Information - Consolidated Results Forecast and Other Forward-Looking Information

There is no revision to the results forecast for the current fiscal year (previously published in the 2015 Consolidated Results Statement on February 8, 2016).

2. Summary of Information Related to Notes

(1) Changes to significant subsidiaries in the current term

None

(2) Special accounting treatments used in preparation of financial statements

None

(3) Changes in accounting policy, changes in accounting estimates, restatements

Application of Standards relating to Business Combinations

In the first quarter of the current consolidated fiscal year, the following accounting standards were applied: Accounting Standards related to Business Combinations (Accounting Standard No. 21, 9/13/2013, hereafter "Business Combination Accounting Standards"), Accounting Standards related to Consolidated Financial Reporting (Accounting Standard No. 22, 9/13/2013, hereafter "Consolidation Accounting Standards"), and Accounting Standards related to Business Divisions (Accounting Standard No. 7, 9/13/2013, hereafter "Business Division Accounting Standards"). Changes in the company's equity method interests in subsidiaries where the company maintains a controlling share is reported as Capital Stock, and the method of reporting expenses in the consolidated fiscal years in which acquisition related expenses occur has also been revised. Further, in regard to business combinations that occurred after the beginning of the first quarter, due to provisional accounting treatment being permanently adopted, there was a change in distributed costs related to acquisition costs reflected in the financial statements of the consolidated fiscal term in which the business combination occurred. In addition, there was a change in presentation of net profit, and the line item previously reported as minority equity is now presented as non-controlling minority interests. In order to reflect these changes, the current and previous fiscal years are presented using the new standards. In the calculation of cash flow in the second quarter of the current fiscal year, cash flow related to the acquisition or sale of subsidiary stock that does not result in a change in the scope of consolidation is reported as Cash Flow from Financing Activities. Acquisition expenses for subsidiary stock that does result in a change in scope of consolidation and expenses relating to the sale or acquisition of subsidiary stock that does not result in a change in the scope of consolidation are reported as Cash Flow from Operating Activities.

In regard to business combination accounting standards, transitional handling as defined in Business Combination Accounting Standard No. 58-2 (4), Consolidated Accounting Standard 44-5 (4) and Business Division Accounting Standard 57-4 (4) will be applied from the first quarter of the current fiscal year onward.

Impact of these changes on financial reporting in the second quarter of the current fiscal year is immaterial.

Application of "Practical Solution on a change in depreciation method due to Tax Reform 2016"

Following the Japanese corporate tax reform, the "Practical Solution on a change in depreciation method due to Tax Reform 2016" (ASBJ Practical Solution No. 32, June 17, 2016) was applied from the second quarter of FY2016, and the depreciation method applied to leasehold improvements and structures acquired after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The impact of this change on the consolidated financial statements for the second quarter of FY2016 is insignificant.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2015)	2nd Quarter Current Fiscal Year (As of Jun 30, 2016)
Assets		
Current Assets		
Cash and deposits	75,979	76,436
Trade notes and accounts receivable	12,528	12,391
Operational investment securities	2,236	2,717
Securities segment deposits	254,894	228,647
Securities segment margin transaction assets	98,229	70,950
Securities segment short term guarantee deposits	45,547	47,216
Securities segment variation margin paid	24,390	30,207
Deferred tax asset	1,621	1,674
Other	16,767	23,175
Provision for doubtful debts	-848	-876
Total Current Assets	531,347	492,541
Fixed Assets		
Tangible fixed assets	6,592	6,963
Intangible fixed assets		
Goodwill	2,224	2,198
Software	4,657	4,718
Other	1,318	6,233
Total intangible fixed assets	8,200	13,149
Investments and other assets		
Investment securities	4,329	5,746
Deferred tax asset	1,448	1,364
Other	3,079	2,926
Provision for doubtful debts	-371	-346
Total investments and other assets	8,486	9,691
Total Fixed Assets	23,278	29,804
Total Assets	554,626	522,346

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2015)	2nd Quarter Current Fiscal Year (As of Jun 30, 2016)
Liabilities		
Current Liabilities		
Trade notes and accounts payable	5,304	5,566
Short term debt	34,529	59,719
Bonds to be redeemed within one-year	2,600	-
Amount payable	12,043	10,015
Securities segment deposits received	31,562	28,914
Securities segment margin transaction liability	71,590	35,863
Securities segment guarantees received	273,518	257,725
Securities segment variation margin received	4,083	1,555
Accrued corporate tax etc.	5,849	2,012
Allowance for bonuses	673	508
Allowance for bonuses to directors	814	345
Advance payment received	5,221	5,995
Deposits received	29,704	30,352
Other	6,745	6,384
Total Current Liabilities	484,240	444,957
Fixed Liabilities		
Long term debt	2,698	8,857
Deferred tax liability	56	48
Other	3,091	4,738
Total Fixed Liabilities	5,846	13,644
Statutory Reserve		
Financial instruments transaction liability reserve	2,382	2,374
Total Statutory Reserve	2,382	2,374
Total Liabilities	492,469	460,976
Net Assets		
Shareholders' Equity		
Capital stock	5,000	5,000
Capital surplus	3,836	1,571
Earned surplus	30,189	30,860
Treasury stock	-0	-2
Total Shareholders' Equity	39,024	37,430
Other Comprehensive Income		
Other securities valuation differences	217	94
Hedging profit/loss carried forward	13	-107
Foreign currency translation account	385	-121
Total Other Comprehensive Income	617	-134
Equity Warrants	49	66
Non-controlling Minority Equity	22,465	24,008
Total Net Assets	62,156	61,370
Liabilities, Net Assets Total	554,626	522,346

(2) Consolidated Statement of Income

Quarterly Consolidated Statement of Income
2nd Quarter

(Unit: ¥millions)

	2nd Quarter Previous Fiscal Year (6 months to Jun, 2015)	2nd Quarter Current Fiscal Year (6 months to Jun, 2016)
Net Sales	63,571	66,707
Cost of Sales	29,869	32,515
Gross Profit on Sales	33,702	34,192
Sales, General & Administrative Expenses	25,210	25,502
Operating Profit	8,491	8,690
Non Operating Revenue		
Gain on currency translation	64	-
Equity method investment profits	19	-
Other	186	185
Total Non Operating Revenue	269	185
Non Operating Expenses		
Interest paid	116	53
Commissions paid	138	66
Equity method investment losses	-	17
Loss on currency translation	-	324
Other	135	63
Total Non Operating Expenses	390	526
Ordinary Profit	8,370	8,349
Extraordinary Profit		
Gain on sale of stock in affiliates	4,786	74
Reversal of reserve for securities transaction liability	-	8
Other	812	4
Total Extraordinary Profit	5,598	87
Extraordinary Loss		
Impairment loss	613	217
Provision to securities transaction liability reserve	222	-
Other	202	22
Total Extraordinary Loss	1,038	239
Net Profit before Adjustment for Tax etc.	12,931	8,197
Corporate, Municipal and Enterprise Taxes	4,656	3,145
Corporate Tax etc. Adjustment	151	170
Total Corporate Taxes etc.	4,807	3,315
Net Profit	8,124	4,882
Profit attributable to Non-controlling Interests	1,027	1,274
Profit attributable to Owners of the Parent	7,096	3,607

Consolidated Statement of Comprehensive Income

(Unit: ¥millions)

	2nd Quarter Previous Fiscal Year (6 months to Jun, 2015)	2nd Quarter Current Fiscal Year (6 months to Jun, 2016)
Net Profit	8,124	4,882
Other Comprehensive Income		
Other securities valuation differences	-82	-320
Hedging profit/loss carried forward	16	-121
Currency translation adjustment account	42	-578
Total other comprehensive income	-24	-1,020
Comprehensive Income	8,099	3,861
(Breakdown)		
Comprehensive income attributable to owners of the parent	7,019	2,855
Comprehensive income attributable to non-controlling interests	1,079	1,005

(3) Consolidated Statement of Cash Flows

(Unit: ¥millions)

	2nd Quarter Previous Fiscal Year (6 months to Jun, 2015)	2nd Quarter Current Fiscal Year (6 months to Jun,2016)
Cash Flow from Operating Activities		
Net profit before adjustment for tax etc.	12,931	8,197
Depreciation expenses	2,158	2,119
Impairment loss	613	217
Amortization of goodwill	814	386
Interest paid	116	53
Gain on sale of stock in affiliates (-represents increase)	-4,698	-74
Change in accounts receivable (-represents increase)	253	753
Change in purchase debts (- represents decrease)	-1,319	-3,261
Change in amount payable (- represents decrease)	2,542	-1,952
Change in deposits received (- represents decrease)	3,352	652
Change in deposits in securities segment (- represents increase)	-25,930	26,247
Change in short term guarantee deposits in securities segment (-represents increase)	-9,437	-1,668
Change in margin variation paid and received in securities segment	-9,492	-8,345
Changes in deposits and guarantees received in securities segment (- represents decrease)	40,737	-18,442
Changes in margin transaction assets and liabilities	-813	-8,447
Other	-3,915	-3,562
Sub total	7,912	-7,126
Interest and dividends received	77	64
Interest paid	-277	-222
Corporate tax etc. paid	-1,831	-7,762
Cash Flow from Operating Activities	5,880	-15,047
Cash Flow from Investing Activities		
Expenditure on payment of fixed term deposit	-160	-0
Return of fixed term deposit	3,613	900
Expenditure on acquisition of tangible fixed assets	-517	-805
Expenditure on acquisition of intangible fixed assets	-1,065	-5,856
Expenditure on acquisition of investment securities	-568	-1,993
Income accrued on the sale of investment securities	214	0
Income from sale of shares in affiliated company	5,770	-
Expenditure on the acquisition of subsidiary stock resulting in change in scope of consolidation	-101	-424
Income from the sale of subsidiary stock resulting in change in scope of consolidation	272	90
Other	27	275
Cash Flow from Investing Activities	7,484	Δ7,814

	(Unit: ¥millions)	
	2nd Quarter Previous Fiscal Year (6 months to Jun, 2015)	2nd Quarter Current Fiscal Year (6 months to Jun,2016)
Cash Flow from Financing Activities		
Income accrued on short term loans	114,799	174,448
Expenditure on repayment of short term loans	-109,809	-151,248
Income accrued on long term loans	2,000	8,500
Expenditure on repayment of long term loans	-9,472	-347
Income from issuing bonds	2,600	-
Redemption of bonds	-	-2,600
Payment received from partners in investment funds	260	880
Returns to partners in investment funds	-647	-
Proceeds from share issuance to non-controlling interests	3,885	218
Acquisition of treasury stock	-	-2,236
Payment of dividends	-1,286	-2,928
Payment of dividends to non-controlling interests	-393	-460
Repayments of installment payable	-	-91
Gain on sale and leasebacks	-	1,850
Other	-893	-1,029
Cash Flow from Financing Activities	1,042	24,954
Currency Translation Adjustment on Cash and Equivalents	-20	-734
Change in Cash and Equivalents (- represents decrease)	14,386	1,358
Balance of Cash and Equivalents at Beginning of Term	65,038	74,929
Increase in Cash and Equivalents following Increase in Consolidation	220	-
Balance of Cash and Equivalents at End of Term	79,645	76,287

(4) Notes regarding the Consolidated Financial Statements
Notes regarding the going concern assumption

Notes regarding changes impacting shareholders' equity
Acquisition and retirement of treasury stock

Following a Board of Directors decision on February 8, 2016, GMO Internet acquired 1,800,000 treasury shares at a total cost of ¥2,148 million between February 9 and February 24, 2016 and further following a Board of Directors decision on March 3, 2016, GMO Internet acquired 62,100 treasury shares at a total cost of ¥85 million on March 4, 2016. After a Board of Directors decision on March 7, 1,862,100 treasury shares were retired on March 11, 2016.

As a result, at the end of the second quarter of the consolidated fiscal year, capital stock decreased ¥2,233 million and treasury stock increased by ¥1 million.

Segment Data

I 2nd Quarter of Previous Fiscal Year (01.01.2015-06.30.2015)

1. Information relating to Revenue, Profit and Loss in each Segment.

(Unit: ¥millions)

	Segment						Other (*i)	Adjustment (*ii)	Consolidated P/L (*iii)
	Internet Infrastructure	Online Ad & Media	Internet Securities	Mobile Entertainment	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	25,967	19,149	15,360	2,317	771	63,568	3	—	63,571
Internal transactions	403	1,531	0	18	—	1,953	—	-1,953	—
Total	26,371	20,680	15,360	2,336	771	65,521	3	-1,953	63,571
Segment Profit/Loss	2,344	783	4,990	-154	490	8,454	-40	76	8,491

*Notes

- i. The Other item represents culture incubation and other businesses not included in reportable segments
- ii. The segment profit or loss adjustment (¥76 million) is an adjustment for internal segment transactions
- iii. Segment profit is based on the Operating Profit (or Loss) line item in the consolidated Statement of Income

2. Items relating to fixed asset impairment losses, and goodwill

(Significant impairment losses related to fixed assets)

Impairment loss on fixed assets was reported in the Mobile Entertainment segment, Internet Infrastructure, and Online Advertising & Media segments. Amount of impairment loss in each segment in the second quarter is as follows; Mobile Entertainment: ¥382 million, Internet Infrastructure: ¥138 million, Online Advertising & Media: ¥91 million.

II 2nd Quarter of Current Fiscal Year (01.01.2016-06.30.2016)

1. Information relating to Revenue, Profit and Loss in each Segment.

(Unit: ¥millions)

	Segment						Other (*i)	Adjustment (*ii)	Consolidated P/L (*iii)
	Internet Infrastructure	Online Ad & Media	Internet Securities	Mobile Entertainment	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	30,856	19,982	14,541	1,210	32	66,623	83	—	66,707
Internal transactions	349	1,885	0	51	—	2,287	—	-2,287	—
Total	31,206	21,868	14,542	1,262	32	68,911	83	-2,287	66,707
Segment Profit/Loss	2,986	666	5,397	-292	-85	8,672	-54	71	8,690

*Notes

- i. The Other item represents culture incubation and other businesses not included in reportable segments
- ii. The segment profit or loss adjustment (¥71 million) is an adjustment for internal segment transactions.
- iii. Segment profit is based on the Operating Profit (or Loss) line item in the consolidated Statement of Income.

2. Items relating to changes in reportable segments (Changes in the calculation method of segment profit/loss)

In the first quarter of the current consolidated fiscal year, standards for the allocation of expenses were changed in order to more appropriately represent performance in each segment. Reportable segments in the previous fiscal year are presented based on the new allocation standards.

3. Items relating to fixed asset impairment losses, and goodwill

(Significant impairment losses related to fixed assets)

Impairment loss on fixed assets was reported in the Mobile Entertainment segment. The amount of impairment loss reported at the end of the second quarter was ¥188 million.