

Fiscal Year 2020 Second Quarter Consolidated Financial Results (Japanese GAAP)

August 11, 2020

Name of Listed Company: GMO Internet, Inc.

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

Representative: Masatoshi Kumagai, CEO, Chairman of the Board and President, Founder and Group CEO

Official Contact: Masashi Yasuda, Deputy CEO Contact Number: +81-3-5456-2555

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Supplementary documents available pertaining to quarterly financial results: Yes

Quarterly results briefing: Yes (live stream only and Q&A session for institutional investors)

(all amounts rounded down to the nearest million yen)

1. Second Quarter Financial Results in the Year Ending December 2020 (01.01.2020- 06.30.2020)

(1) Consolidated Operating Results (cumulative) (percentages shown 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 30,2020	106,500	10.9	16,420	49.9	16,019	50.4	4,181	3.6
June 30,2019	96,038	5.2	10,957	-7.0	10,653	-6.0	4,035	-4.6

(Note) Comprehensive Income: June 30, 2020: 9,324 million (26.4%), June 30, 2019: 7,375 million (-22.2%)

	Net Profit per Share	Net Profit per Share (Diluted)
	¥	¥
Six months ended June 30,2020	37.35	36.77
June 30,2019	35.18	34.67

(2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio
	¥ millions	¥ millions	%
As of June 30,2020	941,795	97,349	4.9
December 31,2019	871,214	102,269	6.2

(Reference) Shareholders' Equity: June 30, 2020: ¥46,516 million; December 31,2019:¥53,784 million

2. Dividends

	Annual Dividends				
	End of Q1	End of Q2	End of Q3	End of Term	Total
	¥	¥	¥	¥	¥
Year Ended 12/2019	6.00	6.00	7.20	5.00	24.20
Year Ending 12/2020	6.60	6.20			
Year Ending 12/2020 (forecast)			—	—	—

3. Consolidated Results Forecast for the Year Ending December 31, 2020 (01.01.2020 – 12.31.2020)

As the Group's business "Internet Finance business," "Cryptoassets business" and "Incubation business" are affected by economic conditions, financial markets, cryptoassets and other market conditions, it is difficult to forecast business performance, and therefore we do not disclose consolidated business results and dividend forecast. GMO Financial Holdings Co., Ltd., our subsidiary, discloses sales indicators, such as foreign exchange transaction volume, stock brokerage trading volume, cryptoasset trading volume and the number of customer account, and operating revenue on a monthly basis.

*Notes

(1) Changes to significant subsidiaries in the current term: Yes

(Transfer of a specified subsidiary resulting in change in scope of consolidation)

Excluded: 1 company (Blog Business Fund Investment Limited Partnership)

(2) Special accounting treatments used in preparation of the quarterly consolidated financial statements:

None

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

1. Changes resulting from revisions to accounting standard, etc.: None

2. Changes other than those specified above: None

3. Changes in accounting estimates: None

4. Restatements: None

(4) Number of Outstanding Shares (Common Shares)

(Unit: shares)

1. Outstanding shares at term end (inc. treasury)

Q2 FYE 12/2020	113,242,987	FYE 12/2019	113,242,987
Q2 FYE 12/2020	3,982,780	FYE 12/2019	1,880
Q2 FYE 12/2020	111,931,475	Q2 FYE 12/2019	114,696,940

2. Treasury shares at term end

3. Average number of shares during the period

*Quarterly financial results are not subject to quarterly review by independent auditors.

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

Although the Company aims to pay dividends quarterly with a payout ratio of 33% to net income attributable to owners of the parent, because it is difficult to forecast business performance, the amount of dividend forecast is yet to be determined at this time. We will promptly disclose dividend forecast when it becomes available.

On August 11, 2020, we plan to post a quarterly results presentation video, explanatory materials and a summary of Q&A session on our company website (<http://ir.gmo.jp/en/>).

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1. Qualitative Information Related to Financial Results

(1) Operating results

◆ Overview of the Financial Results for the Six Months Ended June 30, 2020

	Previous Q2	Current Q2	Change	% Change
Net Sales	96,038	106,500	10,462	10.9%
Operating Profit	10,957	16,420	5,463	49.9%
Ordinary Profit	10,653	16,019	5,366	50.4%
Profit Attributable to Owners of the Parent	4,035	4,181	146	3.6%

(Unit: ¥millions)

Under the corporate slogan “Internet for Everyone” GMO Internet Group focuses resources on high growth Internet markets. Continued high growth in the Internet market is spurred by increased usage and diversification of smartphones and other mobile devices, the usage of social media, the emergence of new technologies including 5G, cloud, artificial intelligence and blockchain, and new movements such as B2B, C2C, O2O and IoT. In addition, the market is expected to further expand as the spread of the novel coronavirus has been driving telework demand, further progress in digital transformation and consumption growth due to the stay-at-home lifestyle. Under such circumstances, 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 as a group that provides Internet and service infrastructure.

Amidst such a business environment, (1) the Internet Infrastructure segment, comprising multiple No. 1 products, showed favorable growth in the Ecommerce solutions and Payment due to consumption growth associated with the stay-at-home lifestyle and in the Provider due to an increase in telework demand. (2) The Online Advertising & Media segment experienced the effect of a decrease in consumption due to the self-restraint request based on the state of emergency declaration and a decline in advertisement unit price in certain industries. (3) The Internet Finance segment showed favorable growth due to increases both in transaction volume and net sales against a backdrop of an increase in volatility in foreign exchange market, commodity future market and stock price index. (4) In the Cryptoassets segment, while the Cryptoassets exchange business showed solid performance with an increase in transaction volume due to increased volatility, net sales decreased in the Cryptoassets mining business as it is currently under business restructuring process.

As a result, for the six months ended June 30, 2020, the Company recorded net sales of ¥106,500 million (up 10.9% year-on-year), operating profit of ¥16,420 million (up 49.9% year-on-year), ordinary profit of ¥16,019 million (up 50.4% year-on-year) and net profit attributable to owners of the parent of ¥4,181 million (up 3.6% year-on-year).

Net Sales and Operating Profit by Segment for the Six Months Ended June 30, 2020

(Unit: ¥millions)

	Previous Q2 (cumulative)	Current Q2 (cumulative)	Change	% Change
Internet Infrastructure				
Net Sales	55,924	64,895	8,971	16.0%
Operating Profit	7,198	8,546	1,347	18.7%
Online Advertising & Media				
Net Sales	23,649	23,073	-576	-2.4%
Operating Profit	341	122	-218	-64.1%
Internet Finance				
Net Sales	13,871	18,223	4,352	31.4%
Operating Profit	3,785	7,209	3,424	90.5%
Cryptoassets				
Net Sales	3,402	2,285	-1,117	-32.8%
Operating Profit	448	165	-282	-63.1%
Incubation				
Net Sales	476	973	497	104.5%
Operating Profit	126	464	338	267.5%
Other				
Net Sales	1,322	545	-776	-58.8%
Operating Profit	-981	-145	836	—
Adjustment				
Net Sales	-2,608	-3,496	-887	—
Operating Profit	38	57	18	—
Total				
Net Sales	96,038	106,500	10,462	10.9%
Operating Profit	10,957	16,420	5,463	49.9%

◆ Overview of Financial Results for the Three Months ended June 30, 2020

(Unit: ¥millions)

	Previous Q2	Current Q2	Change	% Change
Net Sales	49,174	52,800	3,626	7.4%
Operating Profit	5,957	8,137	2,180	36.6%
Ordinary Profit	5,766	7,963	2,196	38.1%
Profit attributable to Owners of the Parent	2,010	1,925	-85	-4.2%

For the three months ended June 30, 2020, the Internet Infrastructure segment showed strong growth and reported record high quarterly earnings due to continued expansion of customer base, as well as an accelerated shift from offline to online triggered by the spread of COVID-19, an increase in consumption from staying at home in response to the self-restraint request, and an increase in telework demand. The Internet Finance segment also showed favorable performance and posted a record high profit supported by a high transaction volume since the first quarter of FY2020 and a strong growth in CFD transactions.

On the other hand, the Online Advertising & Media segment was affected by the spread of COVID-19 and recorded operating loss due to a decrease in orders from certain customers affected by a decline in consumption because of the self-restraint request based on the state of emergency declaration and a decline in advertisement unit price. The Cryptoassets segment also recorded operating loss due to declines in profitability in the Cryptoassets exchange business resulting from spread compression and also in the Cryptoassets mining business due to a Bitcoin halving event.

Profit attributable to owners of the parent decreased year on year, despite strong performance in listed group companies, due to a loss recorded in companies in the investment stage and a special factor such as exclusion of a payment overseas subsidiary from the scope of consolidation.

Net Sales and Operating Profit by Segment for the Three Months ended June 30, 2020

(Unit: ¥millions)

	Previous Q2	Current Q2	Change	% Change
Internet Infrastructure				
Net Sales	28,434	33,582	5,147	18.1%
Operating Profit	3,583	4,674	1,090	30.4%
Online Advertising & Media				
Net Sales	11,573	10,742	-831	-7.2%
Operating Profit	95	-53	-149	—
Internet Finance				
Net Sales	7,474	9,067	1,592	21.3%
Operating Profit	2,315	3,813	1,498	64.7%
Cryptoassets				
Net Sales	2,108	849	-1,258	-59.7%
Operating Profit	678	-260	-938	—
Incubation				
Net Sales	147	233	86	58.9%
Operating Profit	11	15	4	36.2%
Other				
Net Sales	908	255	-652	-71.8%
Operating Profit	-788	-59	728	—
Adjustment				
Net Sales	-1,471	-1,930	-458	—
Operating Profit	61	8	-53	—
Total				
Net Sales	49,174	52,800	3,626	7.4%
Operating Profit	5,957	8,137	2,180	36.6%

Segments results for the three months ended June 30, 2020 are as follows. In line with the revision of the term “Cryptocurrency” to “Cryptoasset” in the Revisions to the Payment Services Act which came into force on May 1, 2020 (“Revised Payment Services Act”), the Group changed its segment name to “Cryptoassets.”

1) Internet Infrastructure

The Internet Infrastructure segment provides basic and service infrastructure for customers operating business in an online environment. Domain, hosting & cloud, ecommerce solutions, payment and security - the five major businesses in this segment – are all developed and offered in-house and each holds top share in their respective markets in Japan. In addition, the segment includes the provider business offering Internet provider services to consumers. The following is a breakdown of results in each of the businesses comprising this segment.

i. Domain

Gateway to the Group’s infrastructure segment, the domain business has continued to actively grow customer base with a low-pricing strategy. The number of domain registration and renewals during the three months ended June 30, 2020 was 1.34 million (down 14.7% year-on-year), and total number of domains under management as of June 30, 2020 was 6.92 million (up 3.2% year-on-year). Net sales were ¥2,427 million (up 2.0% year-on-year).

ii. Hosting & Cloud

The hosting & cloud business responds to growing diversification of client needs through shared, dedicated, VPS and cloud-based offerings under a multi-brand strategy. The number of web hosting contracts as of June 30, 2020 was 917 thousand (up 5.8% year-on-year) and net sales were ¥3,726

million (up 3.2% year-on-year).

iii. Ecommerce solutions

Ecommerce solutions comprises SaaS based services that provide systems for online stores, and C2C handmade market, *minne*, original merchandise production/sales service, *SUZURI*, and O2O support service. During the three months ended June 30, 2020, all services showed favorable growth supported by an increase in consumption from staying home. In the SaaS based services, the number of paid stores as of June 30, 2020 decreased by 1.9% year-on-year to 69 thousand, but total transaction volume increased by 51.4% year-on-year to ¥112.4 billion. *minne* showed a strong growth with total transaction volume of ¥4.13 billion (up 39.7% year-on-year) thanks to sales promotional activities such as a coupon campaign. The transaction volume of *SUZURI* sharply increased as a platform to sell original merchandise of creators who cannot organize physical events, etc. As a result, net sales were ¥3,687 million (up 30.9% year-on-year).

iv. Security

In this segment, GMO GlobalSign, a consolidated subsidiary of GMO Cloud, is offering a security brand “GlobalSign” worldwide, and direct sales targeting large corporations and use of sales partners are driving market share growth both in Japan and globally with the benefit of the penetration of Always-On SSL. Security reported net sales of ¥1,651 million (up 5.7% year-on-year), with overseas sales ratio of over 60%.

v. Payment

Payment services are mainly operated by GMO Payment Gateway and offer comprehensive payment-related service and finance-related services. The payment-related service showed favorable growth due to the growth of the Ecommerce market as well as the expansion of our service offering to those other than Ecommerce operators. In finance-related services, a deferred payment service “GMO Payment After Delivery” as well as remittance service showed favorable growth. As a result, the number of transactions and the transaction volume increased, and net sales increased to ¥9,471 million (up 18.0% year-on-year).

vi. Provider

This sub-segment operates Internet provider services for consumers. Due to an increase in telework demand and successful internet marketing efforts, the number of subscriptions as of June 30, 2020 significantly increased to 2.08 million (up 26.5% year-on-year) and net sales also largely increased to ¥10,524million (up 24.9% year-on-year).

Overall, the Internet Infrastructure segment recorded net sales of ¥33,582 million (up 18.1% year-on-year) and operating profit of ¥4,674 million (up 30.4% year-on-year), hitting a record high due to continued expansion of customer base and demand growth associated with the spread of COVID-19.

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 Internet advertising services such as advertising agency and ad platform mainly through GMO AD Partners and GMO TECH. The advertising agency service recorded weak performance as it was largely affected by a decrease in orders from certain customers hit by a decline in consumption triggered by the self-restraint request based on the state of emergency declaration. The traffic volume of in-house ad network products such as *AkaNe*, an ad network for smartphones, and *ReeMo*, an ad distribution platform (DSP) specialized in collecting users most likely to be interested in the contents, increased due to increased internet usage. As a result, net sales amounted to ¥7,799 million (down 3.3% year-on-year).

ii. Internet Media

This sub-segment provides advertising space through operation of our own media and the marketing support services mainly through GMO Media. Net sales were ¥2,248 million (down 18.1% year-on-year) due to the continued decline in advertisement unit price despite a solid increase in the number of website visitors.

Overall, the Online Advertising & Media segment recorded net sales of ¥10,742 million (down 7.2% year-on-year) and operating loss of ¥53 million (profit of ¥95 million for the three months ended June 30, 2019). Focus in this segment remains on developing and sales of new proprietary products meeting market needs as well as cost optimization.

3) Internet Finance

The Internet Finance segment provides online financial services for retail investors mainly through GMO Click Securities, a consolidated subsidiary of GMO Financial Holdings. The customer base continued to expand, with the number of OTC FX accounts increasing to 890 thousand (up 9.3% year-on-year), the number of securities accounts increasing to 444 thousand (up 11.9% year-on-year) and the number of CFD accounts increasing to 140 thousand (up 31.6% year-on-year). The OTC derivative transactions including OTC FX trading and CFD showed strong growth both in transaction volume and net sales due to increased volatility in the foreign exchange market, commodity future market and stock price index.

Overall, the Internet Finance segment recorded net sales of ¥9,067 million (up 21.3% year-on-year) and operating profit of ¥3,813 million (up 64.7% year-on-year), hitting a record high.

4) Cryptoassets

The Cryptoassets segment operates business pertaining to “mining” and “exchange” of cryptoassets. Performance of each business is as follows.

i. Cryptoassets mining

The Cryptoassets mining business runs mining centers. As the business is currently under restructuring process and the recovery of the Company’s hash rates has been delayed, BTC mining volume decreased. Also, profitability declined due to a Bitcoin halving event, and therefore net sales decreased to ¥220 million (down 64.1% year-on-year).

ii. Cryptoassets exchange

In this business, GMO Coin, a consolidated subsidiary of GMO Financial Holdings, is engaged in spot trading and leveraged transactions of cryptoassets. The customer base expanded with the number of customer accounts increasing to 319 thousand (up 17.8% year-on-year). On the other hand, a temporary increase in cover transaction costs resulted in a decrease in profitability, and accordingly net sales decreased to ¥629 million (down 57.9% year-on-year).

Overall, the Cryptoassets segment recorded net sales of ¥849 million (down 59.7% year-on-year) and operating loss of ¥260 million (profit of ¥678 million for the three months ended June 30, 2019).

5) Incubation

This segment is engaged in investing in internet related companies aimed at capital gains, supporting business expansion, and supporting corporate value improvement. During the three months ended June 30, 2020, net sales were ¥233 million (up 58.9% year-on-year), and operating profit was ¥15 million (up 36.2% year-on-year) due to sales of shareholdings.

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

(Unit: ¥millions)

	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Net sales	49,174	50,975	49,157	53,699	52,800
Operating profit	5,957	8,972	5,348	8,283	8,137
Ordinary profit	5,766	8,638	5,215	8,056	7,963
Profit attributable to owners of the parent	2,010	2,580	1,722	2,256	1,925
Total assets	774,316	813,122	871,214	902,495	941,795
Shareholders' equity	50,577	52,509	53,784	54,309	46,516

(Reference2)

Table: Quarterly Results by Segment

I Net Sales by Segment

(Unit: ¥millions)

	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Internet Infrastructure					
Provider (ISP)	8,429	8,603	8,841	9,248	10,524
Domain	2,380	2,204	2,255	2,394	2,427
Hosting & Cloud	3,610	3,606	3,602	3,740	3,726
Ecommerce Solutions	2,816	2,984	2,985	3,250	3,687
Security	1,563	1,543	1,655	1,647	1,651
Payment	8,027	8,418	9,042	9,303	9,471
Other	1,607	1,183	1,223	1,729	2,093
Total	28,434	28,544	29,607	31,313	33,582
Online Advertising & Media					
Online Advertising	8,064	7,779	8,285	8,587	7,799
Internet Media	2,746	2,729	2,666	2,840	2,248
Internet Research & Other	762	805	895	903	694
Total	11,573	11,315	11,847	12,331	10,742
Internet Finance					
Total	7,474	7,958	6,740	9,156	9,067
Cryptoassets					
Cryptoassets exchange	1,494	1,085	842	1,210	629
Cryptoassets mining	613	487	254	224	220
Total	2,108	1,572	1,096	1,435	849
Incubation					
Total	147	2,483	951	739	233
Sub total	49,738	51,873	50,242	54,976	54,475
Other	908	283	328	289	255
Adjustment	-1,471	-1,180	-1,413	-1,566	-1,930
Net Sales	49,174	50,975	49,157	53,699	52,800

II Operating Profit by Segment

	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Internet Infrastructure	3,583	3,762	3,099	3,871	4,674
Online Advertising & Media	95	64	142	176	-53
Internet Finance	2,315	2,919	1,808	3,395	3,813
Cryptoassets	678	424	86	426	-260
Incubation	11	1,919	485	448	15
Sub total	6,683	9,090	5,622	8,319	8,189
Other	-788	-135	-301	-85	-59
Adjustment	61	17	27	49	8
Operating Profit	5,957	8,972	5,348	8,283	8,137

(Reference3)

Description of businesses in each segment

Business Segment		Main Operations
Internet Infrastructure	Domain	<ul style="list-style-type: none"> • Domain registry services including “shop” and “tokyo” • Domain registrations services: Onamae.com, MuuMuu Domain, and VALUE-DOMAIN
	Hosting & Cloud	<ul style="list-style-type: none"> • Provision, operation, management, and maintenance of shared, VPS, dedicated and cloud-based web hosting services including Onamae.com Rental Server, GMO AppsCloud, ConoHa by GMO, Z. com Cloud, GMO Cloud VPS, GMO Cloud Altus, GMO Cloud Private, KaKing, Lolipop!, heteml, and 30days Album • Electronic contract service “GMO Electronic Seal Agree”
	Ecommerce Solutions	<ul style="list-style-type: none"> • SaaS based services for online store building including Color me shop and MakeShop. • Operation of C2C handmade marketplace “minne” • Operation of production/sales service of original merchandise including SUZURI and canvath • Operation of ecommerce/O2O support services, etc. • Web design, operational support and system consulting, etc.
	Security	<ul style="list-style-type: none"> • DomainSSL, OrganizationSSL, and other SSL certificates, code signing certificates, PDF document signing, client certificates and other digital certificate services
	Payment	<ul style="list-style-type: none"> • PG Multi-Payment Service for mail order and ecommerce business, comprehensive payment processing services for public sector, and finance-related service including early payment service, transaction lending, and GMO payment after delivery
	Provider	<ul style="list-style-type: none"> • GMO TokuToku BB and other Internet provider services.
Online Advertising & Media	Online Advertising	<ul style="list-style-type: none"> • Comprehensive online advertising service including listing, mobile and ad networks, reward, and affiliate advertising. • Advertising planning and production
	Internet Media	<ul style="list-style-type: none"> • Operation of online media such as community site for teenage girls “prican,” programming educational portal “coeteko,” point site “Point Town,” game platform “gesoten,” joint purchase coupon site “Kumapon” and blog service “JUGEM” and ad distribution to own media • SEM Media: Sales of SEO.
	Internet Research & Other	<ul style="list-style-type: none"> • Provision of Internet research systems, management and operation of online research panel including GMO Research Cloud Panel
Internet Finance	Internet Finance	<ul style="list-style-type: none"> • Operation of online securities trading, FX trading services, etc.
Cryptoassets	Cryptoassets exchange	<ul style="list-style-type: none"> • Spot trading and leveraged transactions of cryptoassets
	Cryptoassets mining	<ul style="list-style-type: none"> • Operation of mining centers
Incubation	Venture Capital	<ul style="list-style-type: none"> • Investment in private Internet startups

(2) Financial condition

Assets, liabilities and net assets

Assets

As of June 30, 2020, total assets increased ¥70,581 million (8.1%) from December 31, 2019 to ¥941,795 million. Major factors included an increase of ¥39,101 million (24.4%) in cash and deposits, an increase of ¥33,253 million (6.6%) in various assets due to fluctuations in customer assets in the Securities segment (deposits, margin transaction assets, loan secured by securities, short-term guarantee deposits and variation margin paid) and a decrease of ¥6,948 million (6.9%) in other current assets due mainly to a decrease in advance payments.

Liabilities

As of June 30, 2020, liabilities increased ¥75,501 million (9.8%) from December 31, 2019 to ¥844,446 million. Major factors included an increase of ¥24,805 million (18.5%) in debt, an increase of ¥24,596 million (5.5%) in various liabilities due to fluctuations in customer assets in the Securities segment (deposits received, margin transaction liability, guarantees received, variation margin received, and loans payable secured by securities) and an increase of ¥16,784 million (22.0%) in deposits received,.

Net assets

As of June 30, 2020, net assets decreased ¥4,920 million (4.8%) from December 31, 2019 to ¥97,349 million. Major factors included an increase of ¥9,341 million (¥3 million as of December 31, 2019) in treasury stock due to acquisition of treasury stock, an increase of ¥2,867 million (14.7%) in earned surplus (consisting of an increase from recording profit attributable to owners of the parent totaling ¥4,181 million and a decrease from dividend payments of ¥1,313 million) and an increase of ¥2,348 million (4.9%) in non-controlling interests.

(3) Consolidated results forecast and other forward-looking information

For the fiscal year ending December 31, 2020, the Group plans to increase both net sales and profits, mainly in the Internet Infrastructure segment. Meanwhile, there are certain factors that cannot be reasonably predicted at this point, including: (1) fluctuation of cryptoasset prices and global hash rate trends in the Cryptoassets business, (2) potential impact of economic situations and market conditions in the Internet Finance segment, and (3) when and how much capital gains will be realized in the Incubation segment. Accordingly, we do not disclose the consolidated results forecast for the fiscal year ending December 31, 2020.

2. Summary of Information Related to Notes

(1) Changes to significant subsidiaries in the current term

During the three months ended March 31, 2020, our consolidated subsidiary Blog Business Fund Investment Limited Partnership was excluded from the scope of consolidation as its liquidation process was completed on January 31, 2020.

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

None

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

None

3. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheet

	Previous Fiscal Year (As of Dec 31, 2019)	2nd Quarter Current Fiscal Year (As of June 30, 2020)
(Unit: ¥millions)		
Assets		
Current Assets		
Cash and deposits	160,315	199,416
Trade notes and accounts receivable	22,140	22,591
Operational investment securities	7,732	7,847
Customers' cryptoassets	17,404	22,112
Securities segment deposits	308,037	348,219
Securities segment margin transaction assets	98,246	86,540
Securities segment loan secured by securities	9,531	6,413
Securities segment short term guarantee deposits	51,906	53,466
Securities segment variation margin paid	37,932	44,268
Other	100,865	91,942
Provision for doubtful debts	-3,029	-3,473
Total Current Assets	811,083	879,344
Fixed Assets		
Tangible fixed assets	16,118	16,210
Intangible fixed assets		
Goodwill	2,778	2,445
Software	6,836	7,620
Other	6,975	6,575
Total intangible fixed assets	16,590	16,642
Investments and other assets		
Investment securities	9,881	10,929
Deferred tax asset	6,540	5,896
Other	15,169	13,526
Provision for doubtful debts	-4,169	-753
Total investments and other assets	27,420	29,598
Total Fixed Assets	60,130	62,451
Total Assets	871,214	941,795

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2019)	2nd Quarter Current Fiscal Year (As of June 30, 2020)
Liabilities		
Current Liabilities		
Trade notes and accounts payable	10,390	8,414
Short term debt	122,211	149,546
Amount payable	36,405	36,505
Cryptoassets received	17,404	22,112
Securities segment deposits received	52,586	43,738
Securities segment margin transaction liability	35,496	28,925
Securities segment guarantees received	338,161	379,114
Securities segment variation margin received	3,506	2,474
Securities segment loans payable secured by securities	14,849	14,944
Accrued corporate tax, etc.	2,141	5,066
Allowance for bonuses	1,733	1,736
Allowance for bonuses to directors	74	741
Advance payment received	9,645	10,729
Deposits received	76,378	93,162
Other	10,730	12,381
Total Current Liabilities	731,716	809,594
Fixed Liabilities		
Convertible bonds with equity warrants	17,348	17,297
Long term debt	11,866	9,336
Deferred tax liability	134	157
Other	6,646	6,847
Total Fixed Liabilities	35,996	33,639
Statutory Reserve		
Financial instruments transaction liability reserve	1,231	1,212
Total Statutory Reserve	1,231	1,212
Total Liabilities	768,944	844,446
Net Assets		
Shareholders' Equity		
Capital stock	5,000	5,000
Capital surplus	27,332	26,859
Earned surplus	19,474	22,342
Treasury stock	-3	-9,345
Total Shareholders' Equity	51,803	44,856
Accumulated Other Comprehensive Income		
Other securities valuation differences	968	1,047
Deferred hedging profit/loss	6	8
Foreign currency translation adjustments	1,005	603
Total Accumulated Other Comprehensive Income	1,981	1,659
Equity Warrants	78	77
Non-controlling Interests	48,405	50,754
Total Net Assets	102,269	97,349
Total Liabilities and Net Assets	871,214	941,795

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statement of income
2nd Quarter (cumulative)

(Unit: ¥millions)

	2nd Quarter Previous Fiscal Year (6 months to June 2019)	2nd Quarter Current Fiscal Year (6 months to June 2020)
Net Sales	96,038	106,500
Cost of Sales	50,088	51,971
Gross Profit on Sales	45,950	54,528
Sales, General & Administrative Expenses	34,992	38,108
Operating Profit	10,957	16,420
Non Operating Revenue		
Dividends received	43	50
Gain on investments in partnership	15	131
Other	358	322
Total Non Operating Revenue	416	505
Non Operating Expenses		
Interest paid	68	168
Commissions paid	72	11
Equity method investment losses	433	357
Foreign exchange loss	60	275
Other	87	94
Total Non Operating Expenses	721	906
Ordinary Profit	10,653	16,019
Extraordinary Profit		
Gain from reversal of loss on cryptoassets mining business restructuring	871	—
Gain on sale of fixed assets	127	106
Reversal of provision for doubtful debts	—	37
Reversal of financial instruments transaction liability reserve	177	18
Other	94	38
Total Extraordinary Profit	1,270	201
Extraordinary Loss		
Cancellation penalty	—	311
Loss on evaluation of investment securities	429	—
Impairment loss	285	192
Loss on sale of stock in subsidiaries and affiliates	—	476
Other	90	36
Total Extraordinary Loss	805	1,015
Net Profit before Adjustment for Tax, etc.	11,118	15,205
Corporate, Municipal and Enterprise Taxes	3,798	5,321
Corporate Tax etc. Adjustment	-59	499
Total Corporate Taxes, etc.	3,738	5,821
Net Profit	7,380	9,384
Profit attributable to Non-controlling Interests	3,345	5,202
Profit attributable to Owners of the Parent	4,035	4,181

Quarterly consolidated statement of comprehensive income
2nd Quarter (cumulative)

(Unit: ¥millions)

	2nd Quarter Previous Fiscal Year (6 months to June 2019)	2nd Quarter Current Fiscal Year (6 months to June 2020)
Net Profit	7,380	9,384
Other Comprehensive Income		
Other securities valuation differences	279	366
Deferred hedging profit/loss	-0	2
Foreign currency translation adjustments	-130	-587
Share of other comprehensive income (loss) of associates accounted for using equity method	-152	158
Total other comprehensive income	-4	-59
Comprehensive Income	7,375	9,324
(Breakdown)		
Comprehensive income attributable to owners of the parent	3,791	3,860
Comprehensive income attributable to non-controlling interests	3,584	5,464

- (3) Notes regarding the quarterly consolidated financial statements
Notes regarding the going concern assumption
None

Notes regarding changes impacting shareholders' equity

Pursuant to the resolution at the Board of Directors meeting held on February 12, 2020, the Company acquired 3,980,900 shares of treasury stock during the period from April 1, 2020 to May 31, 2020 for ¥9,341 million. As a result, treasury stock increased by ¥9,341 million to ¥9,345 million as of June 30, 2020.

Segment Information

I 2nd Quarter of Previous Fiscal Year (01.01.2019-06.30.2019)

1. Information relating to net sales, profit or loss by reportable segment.

(Unit: ¥millions)

	Reportable Segment						Other (*i)	Adjustment (*ii)	Consolidated P/L (*iii)
	Internet Infrastructure	Online Ad & Media	Internet Finance	Cryptoassets	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	55,557	21,603	13,833	3,440	476	94,911	1,126	—	96,038
Internal transactions or transfer	367	2,045	37	-37	—	2,413	195	-2,608	—
Total	55,924	23,649	13,871	3,402	476	97,325	1,322	-2,608	96,038
Segment Profit/Loss	7,198	341	3,785	448	126	11,899	-981	38	10,957

*Notes

- “Other” represents mobile entertainment, culture incubation and other businesses not included in reportable segments.
- The segment profit or loss adjustment (¥38 million) is an elimination of inter-segment transactions.
- Segment profit or loss is based on the operating profit (or loss) line item in the quarterly consolidated statement of income.

2. Data relating to impairment loss on fixed assets or goodwill by reportable segment

Material impairment loss on fixed assets

Impairment loss on fixed assets was recognized in “Other” segment. The amount of impairment loss was ¥259 million for the six months ended June 30, 2019.

II 2nd Quarter of Current Fiscal Year (01.01.2020-06.30.2020)

1. Information relating to net sales, profit or loss by reportable segment.

(Unit: ¥millions)

	Reportable Segment						Other (*i)	Adjustment (*ii)	Consolidated P/L (*iii)
	Internet Infrastructure	Online Ad & Media	Internet Finance	Cryptoassets	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	64,495	20,071	18,175	2,310	973	106,027	473	—	106,500
Internal transactions or transfer	400	3,002	47	-25	—	3,424	71	-3,496	—
Total	64,895	23,073	18,223	2,285	973	109,452	545	-3,496	106,500
Segment Profit/Loss	8,546	122	7,209	165	464	16,508	-145	57	16,420

*Notes

- “Other” represents mobile entertainment and other businesses not included in reportable segments.
- The segment profit or loss adjustment (¥57 million) is an elimination of inter-segment transactions.
- Segment profit or loss is based on the operating profit (or loss) line item in the quarterly consolidated statement of income.

2. Change in reportable segments

Effective January 1, 2020, “Cryptocurrency” segment was renamed to “Cryptoassets” segment. The change in the segment name had no impact on the segment information.

The disclosed segment information for the six months ended June 30, 2019 was prepared under the new segment names.

3. Data relating to impairment loss on fixed assets or goodwill by reportable segment

Material impairment loss on fixed assets

Impairment loss on fixed assets was recognized in “Internet Infrastructure” and “Internet Finance” segments. The amount of impairment loss was ¥99 million and ¥92 million in “Internet Infrastructure” and “Internet Finance” segments, respectively, for the six months ended June 30, 2020.

Additional information

(Application of tax effect accounting on transition from the consolidated taxation system to the group tax sharing system)

With regard to the transition to the group tax sharing system introduced by the “Act Partially Amending the Income Tax Act, etc.” (Act No. 8 of 2020) and items under the non-consolidated taxation system reviewed in line with the transition to the group tax sharing system, pursuant to Paragraph 3 of the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ PITF No. 39, March 31, 2020), the Company and its certain domestic consolidated subsidiaries applied the provisions of the Tax Act before the revisions in determining the amount of deferred tax assets and liabilities instead of applying Paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018).

Change in presentation

(Quarterly consolidated balance sheet)

Following the adoption of “Examples of major accounting treatments in the cryptoassets exchange business” issued by Japan Virtual and Crypto assets Exchange Association on June 12, 2020, the Company changed presentation regarding the Company’s cryptoassets business during the six months ended June 30, 2020 with an aim to more appropriately present the substance of transactions and also improve comparability with other cryptoassets exchange operators. In order to reflect this change, the consolidated balance sheet as of December 31, 2019 was reclassified. Guarantees received in the Cryptoassets business were presented as “Securities segment deposits received” in “Current Liabilities” in the consolidated balance sheet as of December 31, 2019. Following the enforcement of the Revised Payment Services Act which came into force on May 1, 2020 and the registration of our consolidated subsidiary as Class 1 Financial Instruments Business Operator, the Company started the segregated management, and accordingly those deposits are included in “Securities segment guarantees received” in “Current Liabilities” from the three months ended June 30, 2020.

Details of the change in presentation and the reclassification of the consolidated balance sheet as of December 31, 2019 are as follows:

Quarterly consolidated balance sheet

As of December 31, 2019

(Unit: ¥millions)

Before change			After change		
Current assets	Cryptocurrency received	17,404	Current assets	Customers’ cryptoassets (Note1)	17,404
Current assets	Securities segment short term guarantee deposits	55,052	Current assets	Securities segment short term guarantee deposits	51,906
			Current assets	Other (Note 2)	3,145
Current liabilities	Cryptocurrency received	17,404	Current liabilities	Cryptoassets received (Note 1)	17,404

Notes 1. Change of account name

2. Money temporarily deposited with other cryptoassets business operators in relation to the trading of cryptoassets of ¥3,145 million which was included in “Security segment short term guarantee deposits” in “Current assets” as of December 31, 2019 is now included in ¥100,865 million of “Other” in “Current assets.”

(Quarterly consolidated statement of income)

“Gain on reversal of loss on cryptocurrency mining business restructuring” presented in “Extraordinary Profit” for the six months ended June 30, 2019 is presented as “Gain on reversal of loss on cryptoassets mining business restructuring” in “Extraordinary Profit” effective January 1, 2020. This change is due to a revision of the term “cryptocurrency” to “cryptoasset” in the Revised Payment Services Act which came into force on May 1, 2020.

As a result of this change, “Gain on reversal of loss on cryptocurrency mining business restructuring” of ¥871 million in “Extraordinary Profit” in the consolidated statement of income for the six months

ended June 30, 2019 is now presented as “Gain on reversal of loss on cryptoassets mining business restructuring” of ¥871 million in “Extraordinary Profit.”