

Fiscal Year 2022 Second Quarter Consolidated Financial Results (Japanese GAAP)

August 8, 2022

Name of Listed Company: GMO Internet, Inc.

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

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Date of Quarterly Report Release: August 12, 2022 Start Date of Dividend Payout: September 20, 2022

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 2022 (01.01.2022- 06.30.2022)

(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, 2022	125,556	4.2	30,941	36.8	33,482	41.8	15,505	59.8
June 30, 2021	120,480	13.1	22,620	37.8	23,620	47.4	9,703	132.0

(Note) Comprehensive Income: June 30, 2022: 44,366 million (122.9%), June 30, 2021: 19,904 million (113.5%)

	Net Profit per Share	Net Profit per Share (Diluted)
	¥	¥
Six months ended		
June 30, 2022	143.97	143.08
June 30, 2021	88.76	88.27

(2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio
	¥ millions	¥ millions	%
As of			
June 30, 2022	1,433,731	172,489	5.5
December 31, 2021	1,418,936	140,402	5.2

(Reference) Shareholders' Equity: June 30, 2022: ¥78,904 million; December 31, 2021: ¥73,548 million

2. Dividends

	Annual Dividends				
	End of Q1	End of Q2	End of Q3	End of Term	Total
	¥	¥	¥	¥	¥
Year Ended 12/2021	17.10	12.20	10.80	12.60	52.70
Year Ending 12/2022	19.60	28.00			
Year Ending 12/2022 (forecast)			—	—	—

3. Consolidated Results Forecast for the Year Ending December 31, 2022 (01.01.2022 – 12.31.2022)

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 value, CFD trading value, cryptoasset trading value and the number of customer accounts, and operating revenue on a monthly basis.

*Notes

(1) Changes to significant subsidiaries in the current term: No

(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.: Yes

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 period end (inc. treasury)

Q2 FYE 12/2022	110,704,401	FYE 12/2021	111,893,046
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2. Treasury shares at period end

Q2 FYE 12/2022	3,979,516	FYE 12/2021	2,283,361
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3. Average number of shares during the period

Q2 FYE 12/2022	107,696,104	Q2 FYE 12/2021	109,308,892
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*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 8, 2022, we plan to stream a financial results briefing live. The presentation and explanation (voice) along with explanatory materials used on the day will be posted on our company website (<https://ir.gmo.jp/en/>) promptly after the meeting.

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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, 2022

(Unit: ¥millions)

	Previous Q2	Current Q2	Change	% Change
Net Sales	120,480	125,556	5,075	4.2%
Operating Profit	22,620	30,941	8,320	36.8%
Ordinary Profit	23,620	33,482	9,862	41.8%
Profit Attributable to Owners of the Parent	9,703	15,505	5,802	59.8%

Under the corporate slogan “Internet for Everyone,” GMO Internet Group has consistently focused resources on the service to provide internet and service infrastructure since its foundation in 1995. With the increased usage of the Internet, the volume of information available on the Internet and the volume of transactions conducted over the Internet have increased exponentially, which has opened new business opportunities for the Group one after another and the Internet infrastructure business with the recurring business model has been leading revenue growth; and as a result, the Group reported increases both in net sales and profit for the year ended December 31, 2021, marking its 13th straight yearly increase.

While there are signs of economic recovery following the implementation of the countermeasures to prevent the spread of COVID-19, the progress of Digital Transformation (DX) and the spread of stay-at-home and online consumption have been becoming an irreversible trend and there is an increasing need for services provided by the Group.

Amidst such a business environment, (1) the Internet Infrastructure segment, a collective of No. 1 products, showed steady growth mainly in Payment and Security. (2) In the Online Advertising & Media segment, transactions with customers in certain industries showed strong growth as economic activities are gradually resuming, and our own media also showed strong growth. (3) In the Internet Finance segment, OTC FX faced a challenging business environment in terms of profitability due to continued weakness in the yen against the U.S. dollar although transaction volume increased due to consolidation of Gaika ex byGMO. On the other hand, CFD showed strong growth thanks to increased volatility in the commodity market. (4) The Cryptoassets segment showed sluggish growth compared to FY2021 Q2 which enjoyed active trading, due to a significant decrease in transaction value caused by lower volatility. (5) The Incubation segment sold some investment securities.

As a result, for the six months ended June 30, 2022, the Company recorded net sales of ¥125,556 million (up 4.2% year-on-year), operating profit of ¥30,941 million (up 36.8% year-on-year), ordinary profit of ¥33,482 million (up 41.8% year-on-year) and net profit attributable to owners of the parent of ¥15,505 million (up 59.8% year-on-year). The impact of applying the accounting standard for revenue recognition was decreases in net sales and operating profit of ¥15,895 million and ¥30 million, respectively, and operating results under the previous accounting standard would have also been increases in net sales and profit from a year ago.

Net Sales and Operating Profit by Segment for the Six Months Ended June 30, 2022

(Unit: ¥millions)

	Previous Q2	Current Q2	Change	% Change
Internet Infrastructure				
Net Sales	68,573	71,425	2,851	4.2%
Operating Profit	9,680	11,869	2,189	22.6%
Online Advertising & Media				
Net Sales	26,413	16,405	-10,008	-37.9%
Operating Profit	1,071	1,474	403	37.6%
Internet Finance				
Net Sales	15,144	21,160	6,015	39.7%
Operating Profit	5,231	6,626	1,395	26.7%
Cryptoassets				
Net Sales	12,581	3,357	-9,223	-73.3%
Operating Profit	6,369	-238	-6,608	—
Incubation				
Net Sales	898	13,392	12,494	—
Operating Profit	506	10,414	9,907	—
Other				
Net Sales	757	1,700	943	124.5%
Operating Profit	-185	-93	92	—
Adjustment				
Net Sales	-3,888	-1,886	2,002	—
Operating Profit	-53	887	941	—
Total				
Net Sales	120,480	125,556	5,075	4.2%
Operating Profit	22,620	30,941	8,320	36.8%

◆ Overview of Financial Results for the Three Months ended June 30, 2022

(Unit: ¥millions)

	Previous Q2	Current Q2	Change	% Change
Net Sales	59,233	69,490	10,256	17.3%
Operating Profit	10,141	19,812	9,671	95.4%
Ordinary Profit	10,076	21,382	11,306	112.2%
Profit attributable to Owners of the Parent	4,046	9,074	5,027	124.2%

During the three months ended June 30, 2022, the Cryptoassets segment showed sluggish growth compared to FY2021 Q2 which enjoyed active cryptoassets trading due to a decline in volatility resulting in a significant decrease in trading value in the cryptoassets exchange business. Meanwhile, the Internet Infrastructure segment showed steady growth mainly in Payment and Security services while making strategic investment in *e-contract service GMO Sign* and promotion investment in ecommerce solutions service. The Online Advertising & Media segment also continued to be on a recovery trend mainly in in-house products. The Internet Finance segment reported increases in both net sales and operating profit mainly due to consolidation of Gaika ex byGMO. In addition, the Incubation segment sold some investment securities, hitting record high quarterly earnings.

Net Sales and Operating Profit by Segment for the Three Months ended June 30, 2022

(Unit: ¥millions)

	Previous Q2	Current Q2	Change	% Change
Internet Infrastructure				
Net Sales	34,661	36,666	2,005	5.8%
Operating Profit	4,936	5,586	650	13.2%
Online Advertising & Media				
Net Sales	12,741	8,512	-4,228	-33.2%
Operating Profit	429	547	118	27.6%
Internet Finance				
Net Sales	6,913	10,363	3,450	49.9%
Operating Profit	2,129	2,975	846	39.8%
Cryptoassets				
Net Sales	5,723	1,294	-4,428	-77.4%
Operating Profit	2,347	-397	-2,745	—
Incubation				
Net Sales	675	12,856	12,180	—
Operating Profit	432	10,162	9,729	—
Other				
Net Sales	439	865	426	97.1%
Operating Profit	-105	-3	101	—
Adjustment				
Net Sales	-1,920	-1,068	851	—
Operating Profit	-28	941	969	—
Total				
Net Sales	59,233	69,490	10,256	17.3%
Operating Profit	10,141	19,812	9,671	95.4%

Segments results for the three months ended June 30, 2022 are as follows.

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 consumer Internet provider services. The following is a breakdown of results in each of the businesses comprising this segment.

Effective January 1, 2022, in light of the future business development of our service using authentication technologies to provide secure and safe Internet, including electronic authentication, cybersecurity and trademark management, we changed the name of a sub-segment and restructured segmentation. Namely, “Digital certificate and eSignature” was changed to “Security,” and the brand security business previously included in “Domain” was transferred to “Security.” Accordingly, year-on-year comparison is performed using the figures under the new segmentation.

i. Domain

Positioned as a gateway to the Group’s infrastructure segment, the domain business has steadily grown its customer base with a low-pricing strategy mainly through the Company and GMO Pepabo. While the number of domain registration and renewals during the three months ended June 30, 2022 decreased to 1.32 million (down 1.7% year-on-year), the total number of domains under management as of June 30, 2022 increased to 7.08 million (up 7.8% year-on-year) and continued strong overseas sales in *.shop* also contributed to earnings. As a result, net sales were ¥2,244 million (up 3.0% 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 mainly through the Company, GMO GlobalSign Holdings and GMO Pepabo. Thanks to the favorable growth in sales of retail server, the number of web hosting contracts as of June 30, 2022 was 1,095 thousand (up 6.8% year-on-year) and net sales were ¥4,569 million (up 15.8% year-on-year).

iii. Ecommerce solutions

Ecommerce solutions are offered mainly by GMO Pepabo and GMO MAKESHOP and comprises EC platforms that provide platforms for online stores, *minne*, a C2C handmade market, *SUZURI*, an original merchandise production/sales service, and O2O support service. In EC platform, the number of contracts of *Color me shop* for a free plan that allows to open an online store without a monthly fee increased, so while the number of paid stores as of June 30, 2022 decreased 6.5% year-on-year to 59 thousand, total transaction volume showed solid growth at ¥119.1 billion (up 4.6% year-on-year) mainly in *MakeShop* which offers high-price plans. For *minne*, the total transaction volume decreased by 1.8% year-on-year to ¥3.6 billion as a reaction to stay-at-home consumption as economic activities resumed despite an effort to reinforce sales campaigns. The effect of the change in accounting standard was a decrease in net sales of ¥694 million, and as a result, net sales were ¥3,622 million (down 13.7% year-on-year).

iv. Security

This business offers security services to provide secure and safe Internet for everyone, including digital certification security such as SSL server certificates and *e-contract service GMO Sign* provided mainly through GMO GlobalSign Holdings, cybersecurity provided by GMO Cybersecurity by Ierae, and brand security provided by GMO BRAND SECURITY Inc. Results of GMO Cybersecurity by Ierae have been included in the consolidated results from the three months ended June 30, 2022. SSL server certificate service returned to a favorable growth trend as the effect of the shortened certificate lifespan from two years to one year to improve security fully subsided. *e-contract service GMO Sign* has steadily expanded its customer base and increased the number of transmission. As a result, this sub-segment reported net sales of ¥3,090 million (up 50.7% year-on-year).

v. Payment

Payment services are mainly operated by GMO Payment Gateway and offer comprehensive payment-related service and finance-related services. In the payment-related service, online/recurring payments in the Ecommerce market showed strong growth, and sales of a next-generation payment platform “*stera*” terminal in the face-to-face payments also increased in response to an expansion of cashless payment market. In finance-related services, the transaction volume of a deferred payment service “GMO Payment After Delivery” showed favorable growth. As a result, the number of transactions and the transaction volume increased, and net sales increased to ¥12,657 million (up 15.3% year-on-year).

vi. Provider

In this sub-segment, the Company offers Internet provider services for consumers. During the three months ended June 30, 2022, the mobile line service which had been on a downward trend appears to have bottomed out due mainly to product improvement. The fixed line service showed steady growth despite a slowdown in teleworking-related demand. As a result, the number of subscriptions at June 30, 2022 was 2.26 million (up 2.2% year-on-year). The effect of the change in accounting standard was a decrease in net sales of ¥881 million, and as a result, net sales were ¥9,606 million (down 9.3% year-on-year).

Overall, the Internet Infrastructure segment recorded net sales of ¥36,666 million (up 5.8% year-on-year) and operating profit of ¥5,586 million (up 13.2% year-on-year). The effect of applying the Accounting Standard for Revenue Recognition was decreases in net sales and operating profit of ¥2,168 million and ¥40 million, respectively.

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. In the advertising agency service, transactions with customers in certain industries grew steadily as economic activity resumed following the gradual easing of the COVID-19 restrictions. The affiliated ads also showed favorable growth. On the other hand, in-house AdTech 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, showed sluggish growth due to competition in media buying. The effect of the change in accounting standard was a decrease in net sales of ¥5,418 million, and as a result, net sales amounted to ¥4,937 million (down 40.7% 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. Advertising revenue increased due to a favorable unit price movement and increased pageviews. The effect of the change in accounting standard was a decrease in net sales of ¥1,244 million, and as a result, net sales were ¥2,401 million (down 31.9% year-on-year).

Overall, the Online Advertising & Media segment recorded net sales of ¥8,512 million (down 33.2% year-on-year), and operating profit of ¥547 million (up 27.6% year-on-year). The effect of applying the Accounting Standard for Revenue Recognition was a decrease in net sales of ¥6,663 million and an increase in operating profit of ¥8 million, and operating results under the previous accounting standard would have been increases in both net sales and operating profit.

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

expanded, with the number of OTC FX accounts increasing to 1,397 thousand (up 50.5% year-on-year) due to consolidation of Gaika ex byGMO in the three months ended September 30, 2021 and the number of securities accounts increasing to 494 thousand (up 5.1% year-on-year). The OTC FX posted an increase in net sales due to consolidation of Gaika ex byGMO while continued weakness of the yen against the U.S. dollar led to an increase in transaction volume and a decline in profitability. CFD showed favorable growth thanks to increased volatility in the commodity market. The securities business in Thailand also continued to show steady growth.

Overall, the Internet Finance segment recorded net sales of ¥10,363million (up 49.9% year-on-year) and operating profit of ¥2,975 million (up 39.8% year-on-year).

4) Cryptoassets

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

i. Cryptoassets mining

The Cryptoassets mining business runs mining centers. Net sales amounted to ¥394 million (down 74.4% year-on-year) due to declines in the operating rate of mining facilities and cryptoassets prices.

ii. Cryptoassets exchange

This sub-segment is engaged primarily in spot trading and leveraged transactions of cryptoassets mainly through GMO Coin, a consolidated subsidiary of GMO Financial Holdings. The customer base expanded with the number of customer accounts as of June 30, 2022 increasing to 526 thousand (up 24.0% year-on-year). On the other hand, the transaction value decreased significantly compared to FY2021 Q2 which reported strong results thanks to the brisk market. As a result, net sales decreased to ¥890 million (down 78.5% year-on-year). We will continue to reinforce our internal efforts including introduction of new currency pairs.

Overall, the Cryptoassets segment reported net sales of ¥1,294 million (down 77.4% year-on-year) and operating loss of ¥397 million (operating profit of ¥2,347 million for the three months ended June 30, 2021).

5) Incubation

This segment is engaged in investing in domestic and overseas internet related companies aimed at capital gains, supporting business expansion, and supporting corporate value improvement mainly through GMO Venture Partners. Net sales were ¥12,856 million (¥675 million for the three months ended June 30, 2021), and operating profit was ¥10,162 million (¥432 million of operating profit for the three months ended June 30, 2021) due to sales of some foreign investment securities.

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

(Unit: ¥millions)

	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Net sales	59,233	56,471	64,494	56,065	69,490
Operating profit	10,141	8,012	10,464	11,128	19,812
Ordinary profit	10,076	8,601	11,171	12,099	21,382
Profit attributable to owners of the parent	4,046	3,597	4,227	6,431	9,074
Total assets	1,134,787	1,369,409	1,418,936	1,487,484	1,433,731
Shareholders' equity	70,700	73,094	73,548	70,415	78,904

(Reference2)

Table: Quarterly Results by Segment

I Net Sales by Segment		(Unit: ¥millions)			
	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Internet Infrastructure					
Provider (ISP)	10,593	10,002	9,825	9,420	9,606
Domain	2,179	2,132	2,188	2,221	2,244
Hosting & cloud	3,946	4,107	4,226	4,484	4,569
Ecommerce solutions	4,195	4,197	4,262	3,559	3,622
Security	2,050	1,978	2,599	2,534	3,090
Payment	10,979	11,323	12,013	12,025	12,657
Other	716	593	736	512	874
Total	34,661	34,335	35,852	34,759	36,666
Online Advertising & Media					
Online advertising	8,328	7,759	8,602	3,831	4,937
Internet media	3,526	3,302	3,788	2,707	2,401
Internet research & other	886	996	1,208	1,353	1,174
Total	12,741	12,058	13,599	7,892	8,512
Internet Finance					
Total	6,913	7,386	11,368	10,796	10,363
Cryptoassets					
Cryptoassets exchange	4,142	2,023	1,740	1,078	890
Cryptoassets mining	1,537	1,653	1,864	856	394
Cryptoassets payment	42	0	770	127	10
Total	5,723	3,677	4,375	2,062	1,294
Incubation					
Total	675	64	607	536	12,856
Sub total	60,715	57,523	65,804	56,047	69,693
Other	439	437	396	835	865
Adjustment	-1,920	-1,489	-1,705	-817	-1,068
Net Sales	59,233	56,471	64,494	56,065	69,490

II Operating Profit by Segment

	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Internet Infrastructure	4,936	4,021	5,530	6,283	5,586
Online Advertising & Media	429	251	-136	927	547
Internet Finance	2,129	2,628	3,856	3,650	2,975
Cryptoassets	2,347	1,482	1,241	159	-397
Incubation	432	-33	311	252	10,162
Sub total	10,274	8,350	10,803	11,272	18,874
Other	-105	-197	-239	-90	-3
Adjustment	-28	-141	-99	-53	941
Operating Profit	10,141	8,012	10,464	11,128	19,812

(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, ConoHa by GMO, Z.com Cloud, GMO Cloud VPS, GMO Cloud ALTUS, GMO Cloud Private, Lolipop!, heteml, and 30days Album
	Ecommerce solutions	<ul style="list-style-type: none"> • SaaS based services for online store building including Color me shop and operation of EC platform to set up net shop offered by 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. • Operation of OMAKASE, reservation management service for restaurants • 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 • e-contract service “e-contract service GMO Sign” • Cybersecurity service including vulnerability assessment of web and smartphone applications, penetration test, security incident response • Brand security service including brand protection measures, detection and elimination of fake products, provision of trademark management system, and acquisition and management of domain name
	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 advertising, 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 aesthetic medical ticket purchase site “KIREIPASS,” life information site for career women “michill” 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, CFD trading, etc.
Cryptoassets	Cryptoassets exchange	<ul style="list-style-type: none"> • Spot trading and leveraged transactions of cryptoassets, etc.
	Cryptoassets mining	<ul style="list-style-type: none"> • Operation of mining centers
	Cryptoassets payment	<ul style="list-style-type: none"> • Issuance and redemption of stablecoin “GYEN” and “ZUSD”
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, 2022, total assets increased ¥14,795 million from December 31, 2021 to ¥1,433,731 million. Major factors included an increase of ¥40,471 million in cash and deposits, an increase of ¥31,478 million 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 an increase of ¥56,665 million in cryptoassets under custody.

Liabilities

As of June 30, 2022, liabilities decreased ¥17,290 million from December 31, 2021 to ¥1,261,242 million. Major factors included a decrease of ¥56,827 million in deposits received for cryptoassets and an increase of ¥41,805 million 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).

Net Assets

As of June 30, 2022, net assets increased ¥32,086 million from December 31, 2021 to ¥172,489 million. Major factors included an increase of ¥7,258 million in earned surplus (consisting of an increase from recording profit attributable to owners of the parent totaling ¥15,505 million, a decrease from dividend payments of ¥3,478 million, a decrease from retirement of treasury stock of ¥2,352 million and a decrease of ¥2,416 million in the beginning balance of earned surplus as a result of application of Accounting Standard for Revenue Recognition), an increase of ¥26,744 million in non-controlling interests, a decrease of ¥4,482 million due to acquisition and retirement of treasury stock and an increase of ¥3,134 million in foreign currency translation adjustments.

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

For the fiscal year ending December 31, 2022, the Group plans to increase both net sales and operating profit, mainly in 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 Cryptoassets business, (2) potential impact of economic situations and market conditions in Internet Finance segment, and (3) when and how much capital gains will be realized in Incubation segment. Accordingly, we do not disclose the consolidated results forecast for the fiscal year ending December 31, 2022.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheet

	Previous Fiscal Year (As of Dec 31, 2021)	2nd Quarter Current Fiscal Year (As of June 30, 2022)
(Unit: ¥millions)		
Assets		
Current Assets		
Cash and deposits	240,136	280,607
Trade notes and accounts receivable	27,382	—
Trade notes, accounts receivable and contract assets	—	31,339
Operational investment securities	8,449	9,950
Cryptoassets under custody	115,973	59,308
Securities segment deposits	478,489	493,198
Securities segment margin transaction assets	134,732	133,343
Securities segment loan secured by securities	9,626	7,581
Securities segment short term guarantee deposits	67,862	68,024
Securities segment variation margin paid	70,512	90,553
Other	143,655	132,114
Provision for doubtful debts	-3,835	-4,136
Total Current Assets	1,292,984	1,301,883
Fixed Assets		
Tangible fixed assets	44,788	45,004
Intangible fixed assets		
Goodwill	14,251	21,058
Software	10,181	10,864
Other	15,132	15,352
Total intangible fixed assets	39,566	47,275
Investments and other assets		
Investment securities	28,605	27,741
Deferred tax asset	2,328	4,097
Other	11,362	8,492
Provision for doubtful debts	-699	-763
Total investments and other assets	41,597	39,568
Total Fixed Assets	125,952	131,848
Total Assets	1,418,936	1,433,731

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2021)	2nd Quarter Current Fiscal Year (As of June 30, 2022)
Liabilities		
Current Liabilities		
Trade notes and accounts payable	11,921	11,093
Short term debt	172,995	190,235
Amount payable	45,228	39,731
Deposits received for cryptoassets	116,161	59,334
Securities segment deposits received	55,392	52,374
Securities segment margin transaction liability	30,554	25,785
Securities segment guarantees received	519,131	555,298
Securities segment variation margin received	7,677	16,768
Securities segment loans payable secured by securities	20,614	24,948
Accrued corporate tax, etc.	4,731	6,295
Allowance for bonuses	2,948	2,036
Allowance for bonuses to directors	1,452	847
Advance payment received	11,082	—
Contract liabilities	—	20,842
Deposits received	110,817	96,913
Other	34,272	19,910
Total Current Liabilities	1,144,982	1,122,419
Fixed Liabilities		
Corporate bonds	45,000	51,000
Convertible bonds with equity warrants	20,990	20,880
Long term debt	55,678	50,305
Deferred tax liability	1,568	6,280
Other	9,390	9,420
Total Fixed Liabilities	132,627	137,886
Statutory Reserve		
Financial instruments transaction liability reserve	924	937
Total Statutory Reserve	924	937
Total Liabilities	1,278,533	1,261,242
Net Assets		
Shareholders' Equity		
Capital stock	5,000	5,000
Capital surplus	34,328	33,674
Earned surplus	35,756	43,014
Treasury stock	-5,684	-10,166
Total Shareholders' Equity	69,400	71,522
Accumulated Other Comprehensive Income		
Other securities valuation differences	3,559	3,668
Deferred hedging profit (loss)	—	-9
Foreign currency translation adjustments	588	3,723
Total Accumulated Other Comprehensive Income	4,147	7,381
Equity Warrants	52	37
Non-controlling Interests	66,802	93,546
Total Net Assets	140,402	172,489
Liabilities, Net Assets Total	1,418,936	1,433,731

(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 2021)	2nd Quarter Current Fiscal Year (6 months to June 2022)
Net Sales	120,480	125,556
Cost of Sales	56,421	45,468
Gross Profit on Sales	64,059	80,087
Sales, General & Administrative Expenses	41,438	49,146
Operating Profit	22,620	30,941
Non Operating Revenue		
Dividends received	383	589
Foreign exchange gain	986	2,148
Gain on investments in partnership	143	152
Other	422	439
Total Non Operating Revenue	1,935	3,330
Non Operating Expenses		
Interest paid	222	396
Equity method investment losses	356	229
Other	356	162
Total Non Operating Expenses	935	788
Ordinary Profit	23,620	33,482
Extraordinary Profit		
Gain from business transfer	126	—
Gain on sale of investment securities	—	19,830
Reversal of financial instruments transaction liability reserve	106	—
Other	13	13
Total Extraordinary Profit	247	19,844
Extraordinary Loss		
Provision of financial instruments transaction liability reserve	—	13
Compensation for customer's loss	—	241
Impairment loss	—	340
Loss on disposal of fixed assets	15	5
Other	—	17
Total Extraordinary Loss	15	617
Net Profit before Adjustment for Tax, etc.	23,851	52,709
Corporate, Municipal and Enterprise Taxes	7,115	9,365
Corporate Tax etc. Adjustment	1,145	4,050
Total Corporate Taxes, etc.	8,260	13,415
Net Profit	15,591	39,293
Profit Attributable to Non-controlling Interests	5,888	23,788
Profit Attributable to Owners of the Parent	9,703	15,505

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

(Unit: ¥millions)

	2nd Quarter Previous Fiscal Year (6 months to June 2021)	2nd Quarter Current Fiscal Year (6 months to June 2022)
Net Profit	15,591	39,293
Other Comprehensive Income		
Other securities valuation differences	3,525	-929
Deferred hedging profit (loss)	23	-9
Foreign currency translation adjustments	694	6,181
Share of other comprehensive income (loss) of associates accounted for using equity method	69	-169
Total other comprehensive income	4,313	5,072
Comprehensive Income	19,904	44,366
(Breakdown)		
Comprehensive income attributable to owners of the parent	13,421	18,739
Comprehensive income attributable to non-controlling interests	6,482	25,626

(3) Notes regarding the quarterly consolidated financial statements

(Notes regarding the going concern assumption)

Not applicable.

(Notes regarding changes impacting shareholders' equity)

Pursuant to the resolutions at the Board of Directors meetings held on February 12, 2021 and February 10, 2022, the Company acquired 1,287,200 shares of treasury stock for ¥3,261 million and 1,597,600 shares of treasury stock for ¥4,253 million, respectively.

Also, pursuant to the resolution at the Board of Directors meeting held on February 10, 2022, the Company retired 1,188,645 shares, which resulted in decreases in capital surplus of ¥680 million, earned surplus of 2,352 million and treasury stock of ¥3,032 million.

As a result, capital surplus, earned surplus and treasury stock as of June 30, 2022 were ¥33,674 million, ¥43,014 million and ¥10,166 million, respectively.

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition)

On January 1, 2022, the Company applied "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan ("ASBJ") Statement No.29, March 31, 2020, "Accounting Standard for Revenue Recognition"), etc., and recognizes revenue at an amount that it expects to receive in exchange for the promised goods or services when the control of the goods or services is transferred to a customer.

Accordingly, we identified performance obligations in the contracts with customers and changed the method to recognize certain initial cost revenue in the Internet Infrastructure segment from recognizing at the commencement of service to recognizing over the service contract period. In addition, the method to recognize revenue for services which the Group is deemed to have provided as an agent was changed from recognizing at gross amount to recognizing at net amount.

We applied the Accounting Standard for Revenue Recognition, etc. from January 1, 2022 pursuant to the transitional treatment provided for in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition, with the cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to January 1, 2022, adjusted to the beginning balance of earned surplus as of January 1, 2022.

As a result, net sales for the six months ended June 30, 2022 decreased by ¥15,895 million, cost of sales decreased by ¥14,370 million, sales, general and administrative expenses decreased by ¥1,493 million, and operating profit, ordinary profit and net profit before adjustment for tax etc. decreased by ¥30 million, respectively. Also, the beginning balance of earned surplus decreased by ¥2,416 million.

As a result of the application of the Accounting Standard for Revenue Recognition, etc., "Trade notes and accounts receivable" which was presented in "Current Assets" on the consolidated balance sheet as of December 31, 2021 is included in "Trade notes, accounts receivable and contract assets" from January 1, 2022. Also, "Advance payment received" which was presented in "Current liabilities" and "Unearned revenue" included in "Other " in "Current liabilities" are included in "Contract liabilities" from January 1, 2022.

Pursuant to the transitional treatment stipulated by Paragraph 89-2 of the Accounting Standard for Revenue Recognition, the Group did not reclassify figures for the year ended December 31, 2021 to conform to the new presentation method. Also, pursuant to the transitional treatment provided for in Paragraph 28-15 of the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12, March 31, 2020), information on the breakdown of revenue arising from contracts with customers for the six months ended June 30, 2021 is not presented.

(Application of Accounting Standard for Fair Value Measurement)

On January 1, 2022, the Company applied “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, “Accounting Standard for Fair Value Measurement”), etc., and the new accounting policies specified in the Accounting Standard for Fair Value Measurement, etc. are applied prospectively pursuant to the transitional treatment prescribed in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). The impact on the Quarterly Consolidated Financial Statements is insignificant.

(Segment Information)

I 2nd Quarter of Previous Fiscal Year (01.01.2021-06.30.2021)

1. Information relating to net sales and 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	68,032	23,209	15,144	12,581	898	119,866	614	—	120,480
Internal transactions or transfer	541	3,203	—	—	—	3,745	143	-3,888	—
Total	68,573	26,413	15,144	12,581	898	123,611	757	-3,888	120,480
Segment Profit/Loss	9,680	1,071	5,231	6,369	506	22,860	-185	-53	22,620

*Notes

- i. "Other" represents mobile entertainment and other businesses not included in reportable segments.
- ii. The segment profit or loss adjustment (¥-53 million) is an elimination of inter-segment transactions.
- iii. Segment profit/loss is based on operating profit in the quarterly consolidated statement of income.

II 2nd Quarter of Current Fiscal Year (01.01.2022-06.30.2022)

1. Information relating to net sales and 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	70,856	15,257	21,148	3,357	13,392	124,012	1,543	—	125,556
Internal transactions or transfer	569	1,147	12	—	—	1,729	156	-1,886	—
Total	71,425	16,405	21,160	3,357	13,392	125,741	1,700	-1,886	125,556
Segment Profit/Loss	11,869	1,474	6,626	-238	10,414	30,147	-93	887	30,941

*Notes

- i. "Other" represents mobile entertainment and other businesses not included in reportable segments.
- ii. Segment profit/loss adjustment (¥887 million) is an elimination of inter-segment transactions.
- iii. Segment profit/loss is based on operating profit in the quarterly consolidated statement of income.

2. Information on changes in reportable segments, etc.

As described in Changes in accounting policies, following the application of the Accounting Standard for Revenue Recognition, etc. on January 1, 2022, the Group changed the accounting treatment for revenue recognition and also the method to measure segment profit (loss) accordingly.

Compared to the previous method, for the six months ended June 30, 2022, in the Internet Infrastructure segment, net sales and segment profit decreased by ¥4,453 million and ¥82 million, respectively; in the Online Advertising & Media segment, net sales decreased by ¥13,393 million and segment profit increased by ¥51 million; and in the Internet Finance segment, net sales decreased by ¥12 million and there was no impact on segment profit. There was no impact on the Cryptoassets and Incubation segments. Also, "Adjustment" for Internal transactions or transfer decreased by ¥1,963 million and there was no impact on the adjustment for segment profit.

3. Information on impairment losses on fixed assets by reporting segment

(Impairment loss on fixed assets)

For the six months ended June 30, 2022, the Online Ad & Media segment, the Cryptoassets segment and Other recognized impairment loss on fixed assets of ¥34 million, ¥12 million and ¥293 million, respectively.

(Significant change in goodwill)

For the Internet Infrastructure segment, in regard to the business combination with GMO Cybersecurity by Ierae, Inc. that took place at the end of the consolidated accounting period for the 1st quarter of the Fiscal Year 2022, the amount of goodwill was a provisionally calculated amount as the allocation of acquisition cost was not completed. During the three months ended June 30, 2022, the allocation of acquisition cost was completed, and the tentative accounting treatment was determined, which resulted in the change in the amount of goodwill from ¥7,724 million (a provisionally calculated amount) to ¥7,555 million.

(Significant subsequent event)

Not applicable