

## Fiscal Year 2019 Second Quarter Consolidated Financial Results (Japanese GAAP)

August 6, 2019

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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Supplementary documents available pertaining to quarterly financial results: Yes

Quarter results presentation: Yes (live stream only)

(all amounts rounded down to the nearest million yen)

### 1. Consolidated Second Quarter Financial Results in the Year Ending December 2019 (01.01.2019- 06.30.2019)

#### (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, 2019	96,038	5.2	10,957	-7.0	10,653	-6.0	4,035	-4.6
June 30, 2018	91,270	22.8	11,783	57.2	11,337	53.6	4,231	116.8

(Note) Comprehensive Income June 30, 2019: ¥7,375 million (-22.2%), June 30, 2018: ¥9,483 million (213.0%)

	Net Profit per Share	Net Profit per Share (Diluted)
Six months ended	¥	¥
June 30, 2019	35.18	34.67
June 30, 2018	36.77	36.39

#### (2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio
As of	¥ millions	¥ millions	%
June 30, 2019	774,316	96,873	6.5
December 31, 2018	752,454	96,421	7.0

(Reference) Shareholders' Equity June 30, 2019: ¥50,577 million December 31, 2018: ¥52,422 million

(Note) Effective January 1, 2019, the Company applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018), etc., and the accounting standard, etc. is applied retrospectively to the figures for the year ended December 31, 2018.

### 2. Dividends

	Dividends per Share				
	End of Q1	End of Q2	End of Q3	End of Term	Total
	¥	¥	¥	¥	¥
Year Ended 12/2018	6.00	6.20	5.50	11.80	29.50
Year Ending 12/2019	6.00	6.00			
Year Ending 12/2019 (forecast)			—	—	—

### 3. Consolidated Results Forecast for the Year Ending December 31, 2019 (01.01.2019 – 12.31.2019)

As the Group's business "Internet Finance business," "Cryptocurrency business" and "Incubation business" are affected by economic conditions, financial markets, cryptocurrency 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 margin transaction volume, stock brokerage trading value 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 (GMO Venture Partners Investment Limited Partnership)

(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 standard, etc.: None

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 end of period (including treasury stock)

2. Treasury stock at end of period

3. Average number of shares during the period

Q2 FYE 12/2019	115,096,887	FYE 12/2018	115,096,887
Q2 FYE 12/2019	1,855,780	FYE 12/2018	4,004
Q2 FYE 12/2019	114,696,940	Q2 FYE 12/2018	115,087,629

\*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 6, 2019, 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

Effective January 1, 2019, the Company applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018), etc., and the year-on-year comparison and analysis of financial position have been conducted using the figures to which the accounting standard, etc. is applied retrospectively.

### (1) Consolidated Operating Results

#### Overview of Financial Results for the Six Months Ended June 30, 2019

(Unit: ¥millions)

	Previous Q2	Current Q2	Change	% Change
Net Sales	91,270	96,038	4,767	5.2%
Operating Profit	11,783	10,957	-825	-7.0%
Ordinary Profit	11,337	10,653	-683	-6.0%
Profit Attributable to Owners of the Parent	4,231	4,035	-196	-4.6%

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 cloud, artificial intelligence and blockchain, and new movements such as B2B, C2C, O2O and IoT. 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 healthy business environment, (1) the Internet Infrastructure segment, already comprising multiple No. 1 products, recorded solid performance in all businesses in the segments including Payment, Ecommerce Solutions, and Provider. (2) The Online Advertising & Media segment has focused on function enhancement and development of proprietary products with the objective of responding to changes in the online advertising market. While sales in advertising agency business were strong, sales of in-house ad network products were weak due to the tightened posting criteria aiming at quality improvement, and sales termination of existing products also had a negative impact. (3) The Internet Finance segment experienced a decline in transaction volume caused by a temporary decline in profitability of over-the-counter FX transactions attributable to a sudden fluctuation in exchange rates in the foreign exchange market early this year and also due to a decline in volatility, but started to show a sign of recovery with an improvement in profitability as a result of improvement measures such as big data analysis. (4) The Cryptocurrency segment recorded profit due to cost reduction attributable to the successful business restructuring of Cryptocurrency mining business and also due to the absence of valuation loss on proprietary positions which was temporarily recorded in the second quarter of FY2018.

As a result, for the six months ended June 30, 2019, the Group recorded net sales of ¥96,038 million (up 5.2% year-on-year), operating profit of ¥10,957 million (down 7.0% year-on-year), ordinary profit of ¥10,653 million (down 6.0% year-on-year) and net profit attributable to owners of the parent of ¥4,035 million (down 4.6% year-on-year). Profit decreased year-on-year due to the absence of gain on sale of shareholdings in relation to the initial public offering of the investee which was recorded in the Incubation segment in the second quarter of FY2018.

Net Sales and Operating Profit by Segment for the Six Months Ended June 30, 2019

(Unit: ¥millions)

	Previous Q2	Current Q2	Change	% Change
Internet Infrastructure				
Net Sales	48,214	55,924	7,710	16.0%
Operating Profit	5,353	7,198	1,844	34.5%
Online Advertising & Media				
Net Sales	23,279	23,649	370	1.6%
Operating Profit	376	341	-35	-9.3%
Internet Finance				
Net Sales	15,712	13,871	-1,840	-11.7%
Operating Profit	5,909	3,785	-2,124	-36.0%
Cryptocurrency				
Net Sales	3,293	3,402	109	3.3%
Operating Profit	-480	448	928	—
Incubation				
Net Sales	2,198	476	-1,722	-78.4%
Operating Profit	1,509	126	-1,383	-91.6%
Other				
Net Sales	990	1,322	331	33.5%
Operating Profit	-918	-981	-62	—
Adjustment				
Net Sales	-2,417	-2,608	-190	—
Operating Profit	31	38	6	—
Total				
Net Sales	91,270	96,038	4,767	5.2%
Operating Profit	11,783	10,957	-825	-7.0%

◆ Overview of Financial Results for the Three Months ended June 30, 2019

(Unit: ¥millions)

	Previous Q2	Current Q2	Change	% Change
Net Sales	47,564	49,174	1,609	3.4%
Operating Profit	6,514	5,957	-557	-8.6%
Ordinary Profit	6,405	5,766	-638	-10.0%
Profit attributable to Owners of the Parent	2,144	2,010	-133	-6.2%

For the three months ended June 30, 2019, the Internet Infrastructure segment showed strong growth with an expanded customer base, and the Cryptocurrency exchange business also showed strong performance due to an increase in transaction volume attributable to high volatility in cryptocurrencies. The Cryptocurrency mining business recorded profit due to cost reduction as a result of the successful business restructuring despite a decline in sales with a decline in BTC mining volume.

Although the Internet Finance segment achieved a record high profitability, a decline in transaction volume resulted in a decrease in profit. And also due to the absence of gain on sale of shareholdings in relation to the initial public offering of the investee which was recorded in the Incubation segment in the second quarter of FY2018, consolidated net sales increased but consolidated profit decreased.

Net Sales and Operating Profit by Segment for the Three Months ended June 30, 2019

(Unit: ¥millions)

	Previous Q2	Current Q2	Change	% Change
Internet Infrastructure				
Net Sales	24,823	28,434	3,611	14.5%
Operating Profit	2,766	3,583	816	29.5%
Online Advertising & Media				
Net Sales	11,012	11,573	561	5.1%
Operating Profit	65	95	29	45.0%
Internet Finance				
Net Sales	7,560	7,474	-86	-1.1%
Operating Profit	2,605	2,315	-290	-11.2%
Cryptocurrency				
Net Sales	2,657	2,108	-549	-20.7%
Operating Profit	255	678	422	165.6%
Incubation				
Net Sales	2,018	147	-1,871	-92.7%
Operating Profit	1,564	11	-1,552	-99.3%
Other				
Net Sales	851	908	56	6.7%
Operating Profit	-759	-788	-28	—
Adjustment				
Net Sales	-1,358	-1,471	-113	—
Operating Profit	15	61	46	—
Total				
Net Sales	47,564	49,174	1,609	3.4%
Operating Profit	6,514	5,957	-557	-8.6%

Financial results by segment for the three months ended June 30, 2019 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.

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, 2019 was 1.57 million (up 26.5% year-on-year), and total number of domains under management as of June 30, 2019 was 6.70 million (up 10.8% year-on-year). Net sales were ¥2,380 million (up 11.1% 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, 2019 was 866 thousand (up 6.3% year-on-year) and net sales were ¥3,610 million (up 2.6% year-on-year).

iii. Ecommerce solutions

Ecommerce solutions comprises SaaS based services for online stores, C2C handmade market, *minne*, and O2O support service. In the SaaS based services, the number of paid stores as of June 30, 2019

decreased 3.7% year-on-year to 71 thousand, but spending per customer increased thanks to upselling strategies. As for *minne*, total transaction volume was ¥2.96 billion (down 1.1% year-on-year) after a shift from a large-scale promotion aiming at gaining recognition to efficient operation. As a result, net sales were ¥2,816 million (up 12.2% year-on-year).

#### iv. Security

As the global expansion of security brand GlobalSign progressed, direct sales targeting large corporations and active sales partners drove market share growth both in Japan and globally with the benefit of the penetration of Always-On SSL. Security reported net sales of ¥1,563 million (up 5.3% year-on-year), with overseas sales ratio of approximately 60%.

#### v. Payment

Payment services are mainly operated by GMO Payment Gateway and offer comprehensive payment-related service and finance-related services. The settlement agency service is working on service expansion in online/recurring payments and face-to-face payments. During the three months ended June 30, 2019, in online/recurring payments service, the number of large merchants increased steadily as the EC market expands steadily partly due to the amendment of the Installment Sales Act. In finance-related services, “GMO Payment After Delivery,” early payment service and remittance service showed strong growth.

As a result of these efforts, the number of transactions and the transaction volume increased steadily, and net sales increased to ¥8,027 million (up 17.7% year-on-year).

#### vi. Provider

This sub-segment operates Internet provider services for consumers. Due to the expansion of product lineup, increased sales mainly through web marketing, and increased OEM sales, the number of subscriptions at June 30, 2019 significantly increased to 1.65 million (up 37.3% year-on-year) and net sales also largely increased to ¥8,429 million (up 30.5% year-on-year).

As a result, overall net sales of the Internet Infrastructure segment amounted to ¥28,434 million (up 14.5% year-on-year). Operating profit increased significantly to ¥3,583 million (up 29.5% year-on-year) due mainly to sales growth in Payment and Provider business as well as optimization of the promotion cost for *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 Internet advertising services such as advertising agency and ad platform. Net sales in the advertising agency business showed steady growth thanks to an increased budget of existing customers as well as acquisition of new large customers. Sales 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, were weak due to the effect of the tightened posting criteria aiming at quality improvement, but are on a recovery track. As a result, net sales amounted to ¥8,064 million (up 14.3% year-on-year).

#### ii. Internet Media

This sub-segment provides advertising space within our own smartphone and PC content and marketing support services. While ecommerce media was strong, media targeting teenage girls was weak due to decreases in the number of site visitors and advertisement unit price. Also due to the effect of sales termination of existing products for small- and medium-size businesses in the first quarter of FY2019, net sales were ¥2,746 million (down 15.1% year-on-year).

Overall, the Online Advertising & Media segment recorded net sales of ¥11,573 million (up 5.1% year-on-year), and operating profit of ¥95 million (up 45.0% year-on-year). Focus in this segment remains on developing and sales of new proprietary products meeting market needs.

### 3) Internet Finance

The Internet Finance segment provides online financial services for retail investors mainly through GMO Financial Holdings. The customer base has continued to increase with the number of OTC FX accounts

increasing to 814 thousand (up 12.3% year-on-year) and the number of Securities accounts increasing to 397 thousand (up 14.6% year-on-year). The OTC FX trading, which accounts for more than half of net sales and profit of the segment, achieved a record high profitability through improvement measures such as big data analysis, but received a negative impact from a decrease in the transaction volume attributable to a decline in volatility in the foreign exchange market.

Overall, the Internet Finance segment recorded net sales of ¥7,474 million (down 1.1% year-on-year) and operating profit of ¥2,315 million (down 11.2% year-on-year), but showed a sign of recovery with an increase in net sales and operating profit from the previous quarter.

#### 4) Cryptocurrency

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

##### i. Cryptocurrency mining

The Cryptocurrency mining business operates mining centers. As the business is currently under restructuring process, the company’s hash rates have declined temporarily, resulting in a decrease in BTC mining volume, and therefore net sales amounted to ¥613 million (down 50.4% year-on-year).

##### ii. Cryptocurrency exchange

In this business, GMO Coin, a consolidated subsidiary of GMO Financial Holdings, are engaged in spot trading and leveraged transactions of cryptocurrency. The customer base has continued expanding with the number of account opening increasing to 271 thousand (up 59.6% year-on-year). The level of cryptocurrency volatility remained high, which resulted in an increase in the transaction volume, and accordingly net sales increased to ¥1,494 million (up 5.3% year-on-year).

Overall, the Cryptocurrency segment recorded net sales of ¥2,108 million (down 20.7% year-on-year) and recorded operating profit of ¥678 million (up 165.6% year-on-year) as the cryptocurrency mining business recorded profit as a result of cost reduction through business restructuring.

#### 5) Incubation Segment

This segment is engaged in investing in internet related companies aimed at capital gains, supporting business expansion, and supporting corporate value improvement. For the three months ended June 30, 2019, net sales were ¥147 million (down 92.7% year-on-year) and operating profit was ¥11 million (down 99.3% year-on-year), a decline in both net sales and profit as there was a sale of its shareholdings in relation to the IPO of the investee in the three months ended June 30, 2018.

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

(Unit: ¥millions)

	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Net Sales	47,564	45,894	48,013	46,863	49,174
Operating Profit	6,514	5,535	4,468	5,000	5,957
Ordinary Profit	6,405	5,172	2,626	4,886	5,766
Profit Attributable to Owners of the Parent	2,144	1,917	-26,856	2,024	2,010
Total Assets	753,112	779,900	752,454	771,614	774,316
Shareholders' Equity	47,559	48,550	52,422	53,012	50,577



(Reference2)

Table: Quarterly Results by Segment

I Net Sales by Segment		(Unit: ¥millions)				
		Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Internet Infrastructure						
Provider (ISP)		6,460	6,902	7,333	7,744	8,429
Domain		2,141	2,100	2,132	2,234	2,380
Hosting & Cloud		3,519	3,614	3,604	3,549	3,610
Ecommerce Solutions		2,510	2,620	3,019	3,038	2,816
Security		1,484	1,503	1,573	1,580	1,563
Payment		6,819	7,304	8,182	7,838	8,027
Other		1,887	1,418	1,283	1,504	1,607
Total		24,823	25,465	27,129	27,489	28,434
Online Advertising & Media						
Online Advertising		7,058	7,895	8,282	8,341	8,064
Internet Media		3,235	2,842	2,832	2,934	2,746
Internet Research & Other		718	728	934	800	762
Total		11,012	11,466	12,049	12,076	11,573
Internet Finance						
Total		7,560	7,493	7,512	6,397	7,474
Cryptocurrency						
Cryptocurrency exchange		1,420	1,369	1,053	507	1,494
Cryptocurrency mining		1,237	1,249	1,280	786	613
Total		2,657	2,619	2,334	1,294	2,108
Incubation						
Total		2,018	107	7	328	147
Sub total		48,072	47,152	49,033	47,586	49,738
Other		851	142	394	414	908
Adjustment		-1,358	-1,400	-1,415	-1,137	-1,471
Net Sales		47,564	45,894	48,013	46,863	49,174

## II Operating Profit by Segment

	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Internet Infrastructure	2,766	2,930	3,157	3,615	3,583
Online Advertising & Media	65	59	326	246	95
Internet Finance	2,605	2,585	2,263	1,469	2,315
Cryptocurrency	255	104	-986	-229	678
Incubation	1,564	-71	-216	114	11
Sub total	7,257	5,608	4,545	5,216	6,683
Other	-759	-91	-96	-193	-788
Adjustment	15	18	19	-23	61
Operating Profit	6,514	5,535	4,468	5,000	5,957

(Reference3)

Description of businesses in each segment

Business Segment		Main Operations
Internet Infrastructure	Domain	<ul style="list-style-type: none"> <li>• Domain registry services including “.shop” and “.tokyo”</li> <li>• Domain registrations services: Onamae.com, MuuMuu Domain, and VALUE-DOMAIN</li> </ul>
	Hosting & Cloud	<ul style="list-style-type: none"> <li>• 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</li> </ul>
	Ecommerce Solutions	<ul style="list-style-type: none"> <li>• SaaS based services for online store building including Color me shop and MakeShop.</li> <li>• Operation of C2C handmade marketplace, minne</li> <li>• Operation of production/sales service of original merchandise including SUZURI and canvath</li> <li>• Operation of ecommerce/O2O support services etc.</li> <li>• Web design, operational support and system consulting, etc.</li> </ul>
	Security	<ul style="list-style-type: none"> <li>• DomainSSL, OrganizationSSL, and other SSL certificates, code signing certificates, PDF document signing, client certificates and other digital certificate services</li> </ul>
	Payment	<ul style="list-style-type: none"> <li>• PG Multi-Payment Service for mail order and ecommerce business, comprehensive payment processing services for the public sector, and finance-related service including early payment service, transaction lending, and GMO payment after delivery</li> </ul>
	Provider	<ul style="list-style-type: none"> <li>• GMO TokuToku BB and other Internet provider services.</li> </ul>
Online Advertising & Media	Online Advertising	<ul style="list-style-type: none"> <li>• Comprehensive online advertising service including listing, mobile and ad networks, reward advertising, affiliate advertising.</li> <li>• Advertising planning and production</li> </ul>
	Internet Media	<ul style="list-style-type: none"> <li>• 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 services “JUGEM” and ad distribution to own media</li> <li>• SEM Media: Sales of SEO.</li> </ul>
	Internet Research & Other	<ul style="list-style-type: none"> <li>• Provision of Internet research systems, management and operation of online research panel including GMO Research Cloud Panel</li> </ul>
Internet Finance	Internet Finance	<ul style="list-style-type: none"> <li>• Operation of online securities trading, FX trading services, etc.</li> </ul>
Cryptocurrency	Cryptocurrency exchange	<ul style="list-style-type: none"> <li>• Spot trading and leveraged transactions of cryptocurrency</li> </ul>
	Cryptocurrency mining	<ul style="list-style-type: none"> <li>• Operation of mining centers</li> </ul>
Incubation	Venture Capital	<ul style="list-style-type: none"> <li>• Investment in private Internet startups</li> </ul>

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

Assets

As of June 30, 2019, total assets increased ¥21,861 million (2.9%) from December 31, 2018 to ¥774,316 million. Major factors included an increase of ¥12,061 million (86.7%) in cryptocurrency received, an increase of ¥4,282 million (0.9%) in various assets due to fluctuations in customer assets in the Finance segment, etc. (deposits, margin transaction assets, loan secured by securities, short term guarantee deposits, and variation margin paid), an increase of ¥6,955 million (9.8%) in other current assets due to increases in advance payments and other receivables, an increase of ¥2,359 million (23.0%) in tangible fixed assets and a decrease of ¥7,468 million (5.2%) in cash and deposits.

Liabilities

As of June 30, 2019, liabilities increased ¥21,410 million (3.3%) from December 31, 2018 to ¥677,443 million. Major factors included an increase of ¥23,596 million (6.0%) in various liabilities due to fluctuations in customer assets in the Finance segment, etc. (deposits received, margin transaction liability, guarantees received, variation margin received, and debt secured by securities), an increase of ¥12,061 million (86.7%) in cryptocurrency received, a decrease of ¥8,206 million (22.6%) in amount payable, and a decrease of ¥4,248 million (58.7%) in accrued corporate tax, etc.

Net Assets

As of June 30, 2019, net assets increased ¥451 million (0.5%) from December 31, 2018 to ¥96,873 million. Major factors included an increase of ¥1,986 million (13.5%) in earnings surplus (consisting mainly of an increase from recording profit attributable to owners of the parent totaling ¥4,035 million and a decrease from dividend payments of ¥2,048 million), an increase of ¥3,104 million in treasury stock as a result of acquisition of treasury stock (¥7 million as of December 31, 2018), and an increase of ¥2,288 million (5.2%) in non-controlling interests.

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

For the fiscal year ending December 31, 2019, the Group expects an increase both in net sales and operating profit, mainly in the Internet Infrastructure segment. Meanwhile, there are certain factors that cannot be reasonably predicted at this point, including: (1) Fluctuation of cryptocurrency price and movement of global hash rates in the Cryptocurrency segment, (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 will not disclose the consolidated results forecast for the fiscal year ending December 31, 2019.

## 2. Summary of Information Related to Notes

### (1) Changes to significant subsidiaries in the current term

During the three months ended June 30, 2019, our consolidated subsidiary GMO Venture Partners Investment Limited Partnership was excluded from the scope of consolidation as its liquidation proceedings were completed on May 30, 2019.

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

None

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

None

### 3. Quarterly Consolidated Financial Statements and Major Notes

#### (1) Quarterly consolidated balance sheet

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2018)	2nd Quarter Current Fiscal Year (As of June 30, 2019)
<b>Assets</b>		
<b>Current Assets</b>		
Cash and deposits	144,096	136,627
Trade notes and accounts receivable	20,725	20,082
Operational investment securities	7,006	7,466
Cryptocurrency received	13,903	25,964
Securities segment deposits	269,696	274,717
Securities segment margin transaction assets	81,551	79,441
Securities segment loan secured by securities	7,558	6,667
Securities segment short term guarantee deposits	57,579	58,990
Securities segment variation margin paid	40,282	41,132
Other	70,702	77,658
Provision for doubtful debts	-2,570	-2,881
<b>Total Current Assets</b>	<b>710,532</b>	<b>725,868</b>
<b>Fixed Assets</b>		
Tangible fixed assets	10,240	12,600
<b>Intangible fixed assets</b>		
Goodwill	1,843	1,633
Software	5,818	6,409
Other	8,451	8,170
<b>Total intangible fixed assets</b>	<b>16,113</b>	<b>16,213</b>
<b>Investments and other assets</b>		
Investment securities	7,617	8,168
Deferred tax asset	4,971	4,947
Other	7,168	10,678
Provision for doubtful debts	-4,189	-4,160
<b>Total investments and other assets</b>	<b>15,567</b>	<b>19,634</b>
<b>Total Fixed Assets</b>	<b>41,922</b>	<b>48,448</b>
<b>Total Assets</b>	<b>752,454</b>	<b>774,316</b>

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2018)	2nd Quarter Current Fiscal Year (As of June 30, 2019)
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Trade notes and accounts payable	10,833	9,570
Short term debt	80,820	82,913
Amount payable	36,363	28,157
Cryptocurrency received	13,903	25,964
Securities segment deposits received	43,131	44,215
Securities segment margin transaction liability	24,995	28,816
Securities segment guarantees received	309,449	323,453
Securities segment variation margin received	5,589	3,856
Securities segment debt secured by securities	12,714	19,134
Accrued corporate tax, etc.	7,240	2,992
Allowance for bonuses	1,684	861
Allowance for bonuses to directors	752	278
Advance payment received	7,644	9,453
Deposits received	55,881	50,856
Other	9,886	12,315
<b>Total Current Liabilities</b>	<b>620,892</b>	<b>642,841</b>
<b>Fixed Liabilities</b>		
Convertible bonds with equity warrants	17,450	17,399
Long term debt	9,522	10,870
Deferred tax liability	274	265
Other	6,306	4,657
<b>Total Fixed Liabilities</b>	<b>33,553</b>	<b>33,192</b>
<b>Statutory Reserve</b>		
Financial instruments transaction liability reserve	1,587	1,409
<b>Total Statutory Reserve</b>	<b>1,587</b>	<b>1,409</b>
<b>Total Liabilities</b>	<b>656,033</b>	<b>677,443</b>
<b>Net Assets</b>		
<b>Shareholders' Equity</b>		
Capital stock	5,000	5,000
Capital surplus	30,981	30,498
Earned surplus	14,678	16,664
Treasury stock	-7	-3,112
<b>Total Shareholders' Equity</b>	<b>50,651</b>	<b>49,050</b>
<b>Accumulated Other Comprehensive Income</b>		
Other securities valuation differences	789	869
Deferred hedging profit/loss	0	-0
Foreign currency translation adjustments	981	657
<b>Total Accumulated Other Comprehensive Income</b>	<b>1,771</b>	<b>1,526</b>
Equity Warrants	77	86
Non-controlling Interests	43,920	46,209
<b>Total Net Assets</b>	<b>96,421</b>	<b>96,873</b>
<b>Total Liabilities and Net Assets</b>	<b>752,454</b>	<b>774,316</b>

## (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 Jun, 2018)	2nd Quarter Current Fiscal Year (6 months to Jun, 2019)
Net Sales	91,270	96,038
Cost of Sales	45,606	50,088
Gross Profit on Sales	45,664	45,950
Sales, General & Administrative Expenses	33,881	34,992
Operating Profit	11,783	10,957
Non Operating Revenue		
Dividends received	307	43
Other	215	373
Total Non Operating Revenue	522	416
Non Operating Expenses		
Interest paid	151	68
Commissions paid	101	72
Equity method investment losses	251	433
Foreign exchange loss	268	60
Other	195	87
Total Non Operating Expenses	969	721
Ordinary Profit	11,337	10,653
Extraordinary Profit		
Reversal of reserve for securities transaction liability	157	177
Gain from reversal of loss on cryptocurrency mining business restructuring	—	871
Other	808	221
Total Extraordinary Profit	965	1,270
Extraordinary Loss		
Loss on evaluation of investment securities	21	429
Impairment loss	143	285
Other	123	90
Total Extraordinary Loss	288	805
Net Profit before Adjustment for Tax etc.	12,014	11,118
Corporate, Municipal and Enterprise Taxes	4,674	3,798
Corporate Tax etc. Adjustment	-330	-59
Total Corporate Taxes etc.	4,343	3,738
Net Profit	7,670	7,380
Profit attributable to Non-controlling Interests	3,438	3,345
Profit attributable to Owners of the Parent	4,231	4,035

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

(Unit: ¥millions)

	2nd Quarter Previous Fiscal Year (6 months to Jun, 2018)	2nd Quarter Current Fiscal Year (6 months to Jun, 2019)
Net Profit	7,670	7,380
Other Comprehensive Income		
Other securities valuation differences	1,994	279
Deferred hedging profit/loss	9	-0
Foreign currency translation adjustments	-158	-130
Share of other comprehensive income of entities accounted for using equity method	-33	-152
Total other comprehensive income	1,812	-4
Comprehensive Income	9,483	7,375
(Breakdown)		
Comprehensive income attributable to owners of the parent	5,285	3,791
Comprehensive income attributable to non-controlling interests	4,197	3,584



- (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, 2019, the Company acquired 1,853,900 shares of treasury stock during the period from May 1, 2019 to June 20, 2019 for ¥3,109 million. As a result, treasury stock increased by ¥3,104 million to ¥3,112 million as of June 30, 2019.

Segment information

I 2nd Quarter of Previous Fiscal Year (01.01.2018-06.30.2018)

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

(Unit: ¥millions)

	Reportable segment						Other (*i)	Adjustment (*ii)	Consolidated P/L (*iii)
	Internet Infrastructure	Online Ad & Media	Internet Finance	Crypto- currency	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	47,914	21,225	15,737	3,267	2,198	90,344	926	–	91,270
Internal transactions	299	2,053	-24	25	–	2,354	63	-2,417	–
Total	48,214	23,279	15,712	3,293	2,198	92,698	990	-2,417	91,270
Segment Profit/Loss	5,353	376	5,909	-480	1,509	12,670	-918	31	11,783

\*Notes

- "Other" represents mobile entertainment, culture incubation and other businesses not included in reportable segments.
- Segment Profit/Loss adjustment (¥31 million) is an elimination of inter-segment transactions.
- Segment Profit/Loss is based on the Operating Profit (or Loss) line item in the quarterly consolidated statement of income.

II 2nd Quarter of Current Fiscal Year (01.01.2019-06.30.2019)

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

(Unit: ¥millions)

	Reportable segment						Other (*i)	Adjustment (*ii)	Consolidated P/L (*iii)
	Internet Infrastructure	Online Ad & Media	Internet Finance	Crypto- currency	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	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.
- Segment Profit/Loss adjustment (¥38 million) is an elimination of inter-segment transactions.
- Segment Profit/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 were recognized in “Other” segment. The amount of impairment loss was ¥259 million for the six months ended June 30, 2019.

### Additional information

Effective January 1, 2019, the Company applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018), etc., and deferred tax assets are presented in Investment and other assets and deferred tax liabilities are presented in Fixed liabilities.

### Significant subsequent events

#### Retirement of treasury stock

At the Board of Directors meeting held on July 16, 2019, it was resolved to retire treasury stock in accordance with the articles of incorporations pursuant to Article 178 of the Companies Act, and the Company retired treasury stock as described below.

- (1) Reason for retirement of treasury stock: To enhance shareholder returns and improve capital efficiency
- (2) Class of shares subject to retirement: Common stock of the Company
- (3) Total number of shares subject to retirement: 1,853,900 shares (1.61% of total number of shares issued and outstanding before the retirement)
- (4) Date of retirement: July 23, 2019
- (5) Total number of shares issued and outstanding after the retirement: 113,242,987 shares