

Condensed Consolidated Interim Financial Statement for the Term Ending December 31st 2006 (Brief).



August 14th 2006

Name of Listed Company: **GMO Internet Inc.**

Stock Exchange: Tokyo Stock Exchange First Section

Code: 9449

Head Office: Tokyo

URL: <http://www.gmo.jp>

Representative: Masatoshi Kumagai, President and Representative Director

Direct Enquiries to: Masashi Yasuda, Managing Director

Telephone: 81-3-5456-2555

Board of Directors Meeting Date: August 14th 2006

Use of Standard US Accounting Principles: None

1. Consolidated Interim Results for the Term Ending December 2006. (January 1st 2006 to June 30th 2006)

(1) Consolidated Financial Results (Amounts rounded down to the nearest million yen)

	Sales		Operating Profit		Ordinary Profit	
	¥ Millions	%	¥ Millions	%	¥ Millions	%
Interim ending June 2006	23,042	(61.1)	2,009	(79.0)	1,927	(67.0)
Interim ending June 2005	14,304	(45.5)	1,122	(-3.4)	1,154	(-2.3)
Year Ending December 2005	37,219		4,352		4,103	

	Interim Net Profit (Current)		Interim Net Profit Per Share (Current)	Interim Net Profit Per Share Diluted (Current)
	¥ Millions	%	¥	¥
Interim ending June 2006	193	(-71.0)	3.12	3.02
Interim ending June 2005	666	(-61.9)	10.88	10.80
Year Ending December 2005	3,258		52.68	52.39

(NOTES)

1. Equity in Income (Loss) of Investees: 2006 Interim - Million Yen 2005 Interim - Million Yen December 2005 - Million Yen

2. Number of Outstanding Shares in this Period (Consolidated)

Interim Ending June 2006: 61,961,381 Shares

Interim Ending June 2005: 61,269,067 Shares

Year Ending December 2005: 61,429,016 Shares

3. Change in Accounting Method: Yes

4. The percentages shown (Sales, Operating Profit, Ordinary Profit, Interim Net Profit (Current)) represent the percentage of increase or decrease from same period in the previous year.

(2) Consolidated Financial Condition

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per Share
	¥ Millions	¥ Millions	%	¥
Interim ending June 2006	92,844	24,076	18.6	278.63
Interim ending June 2005	27,487	13,627	49.6	222.08
Year Ending December 2005	88,057	16,282	18.5	262.51

(Note) Number of Issued Shares at End of Term (Consolidated)

Interim Ending June 2006: 62,004,594 Shares

Interim Ending June 2005: 61,365,248 Shares

December 2005: 62,940,632 Shares

(3) Consolidated Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Closing Balance of Cash and Cash Equivalents.
	¥ Millions	¥ Millions	¥ Millions	¥ Millions
Interim ending June 2006	-353	-423	686	23,931
Interim ending June 2005	-378	-412	797	11,327
Year Ending December 2005	-158	-22,733	34,748	23,202

(4) Matters concerning the scope of consolidation and the application of equity method.

Number of Consolidated Subsidiaries: 29 Number of Non-Consolidated Equity Method Subsidiaries: -

Number of Affiliated Equity Method Companies: -

(5) Changes in the scope of consolidation and application of equity method.

Consolidation: New:8 Excluded:4 Application of Equity Method: New: - Excluded: -

2. Projections of Consolidated Business Results for the Term Ending December 2006 (January 1st 2006 – December 31st 2006)

	Sales	Operating Profit	Ordinary Profit	Current Net Income
	¥ Millions	¥ Millions	¥ Millions	¥ Millions
Year End	51,000	6,500	6,350	2,200

(For reference) Forecast Current Net Profit per Share (Year End): 35.46 yen

(Note) The GMO Group business environment is subject to significant change in a short period of time. As such, actual results may vary from those projected here

Status of the Corporate Group

GMO Internet Inc., (hereafter “the company”) is a corporate group consisting of the company and 29 subsidiaries. Under the corporate slogan “Internet for Everyone”, the company group operates in three main areas of business Internet infrastructure (Internet Use Support), Internet media (Internet Advertising Support) and Internet finance (Internet Finance). The following table is classified by business segment and shows the business areas in which the company group is involved.

Business Segment	Main Operations		Main Companies
Internet Infrastructure Business (Internet Use Support)	Domain Business	Domain registration Internet Number Service	the company INTERNET Number Corporation paperboy & co.
	Web Hosting Operations	Rental server service (Hosting service)	the company G M O Hosting and Security Inc. paperboy & co. WEBKEEPERS,INC. @YMC Corporation Mighty Server Inc.
	Website Construction and Support	Website construction, Operations support, Consulting services	The company Grandsphere GMO BLOG Inc.
	Web Security	Secure information over the Internet. Authentication services for individuals and corporations.	GeoTrust Japan, Inc.
	Payment Processing	Credit card billing service	G M O Payment Gateway Inc. Epsilon Inc.
	Provider	Internet access provider	The company
	Corporate Communications	Services related to communications for corporate customers.	The company
	Other Businesses	Organization for investigating and promoting advanced technologies Online Shop construction ASP	G M O Research Institute Inc. MakeShop Inc.
Internet Media (Internet Advertising Support)	Internet media construction	Blogs, contextual advertising, mailing lists, opt-in mail services, wallpaper, bulletin boards and other Internet advertising media development and sales.	G M O Media Holdings Inc. TeaCup Communication Inc. G M O Media Inc. G M O Ad Networks Inc. (Formerly GMO Affiliate Inc.)
	Internet Advertising Sales	Advertising sales; mainly recruitment advertising and Internet advertising media.	MagClick Inc. G M O San Planning Inc.
	JWord	JWord (Japanese keyword search)	The company MagClick Inc. J W o r d Inc.
	Online Games	Online Games – planning and management	Net Clue Inc. (Korea) G M O G a m e s Inc. (formerly Net Clue Japan)
	Other	Provision of Internet research systems and the management and operation of research monitors.	G M O Research Inc.
Internet Finance Business	Loans and Credit	Loans and credit business	G M O NetCard Inc. (Formerly Orient Credit inc.)
	Internet Securities	Internet Securities	G M O Internet Securities Inc.

	Venture Capital	Venture Capital	GMO Venture Partners Inc. GMO Venture Partners Investment Limited Partnership Blog Business Fund Investment Limited Partnership
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List of Consolidated Subsidiaries

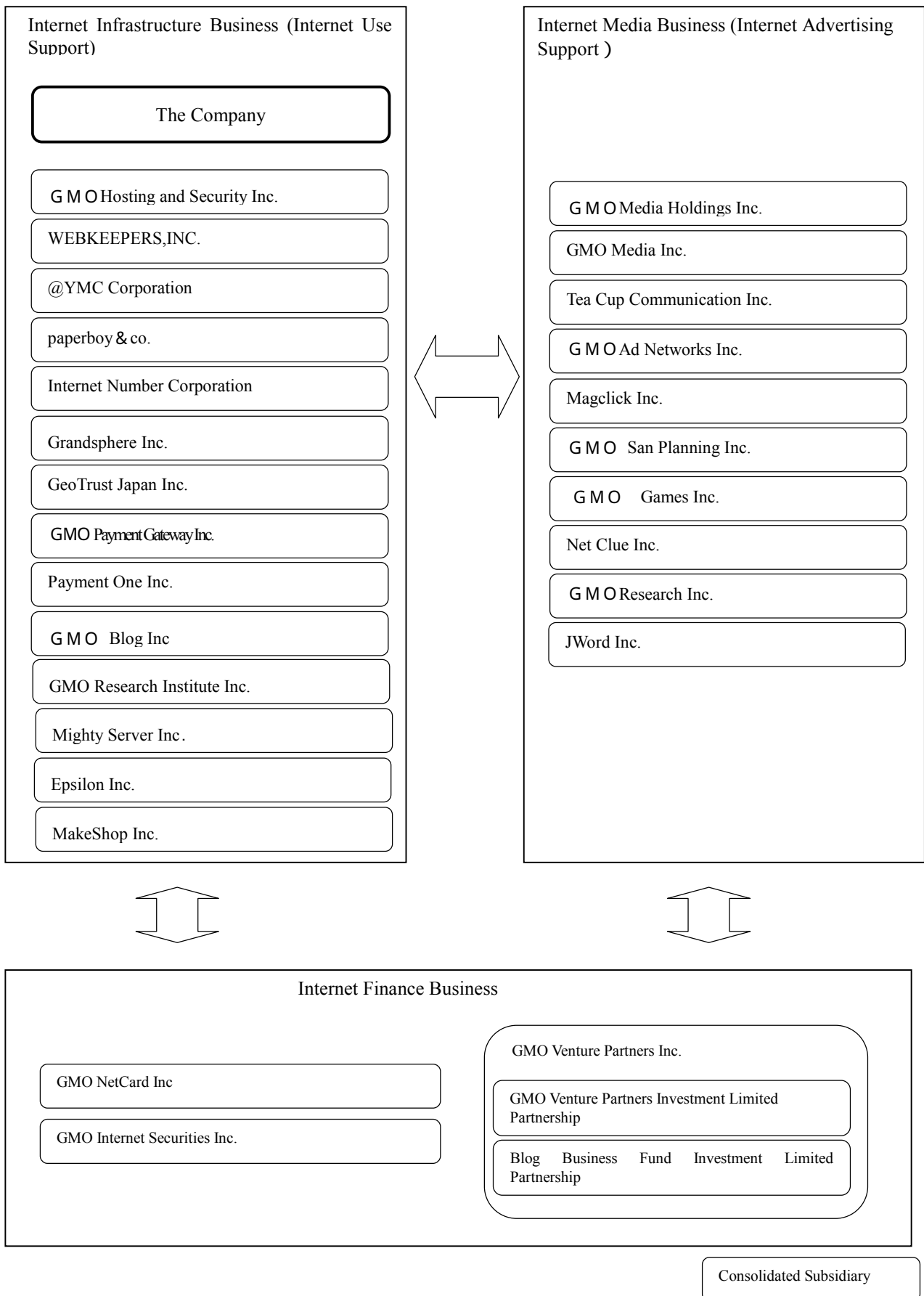
Company Name	Percentage of voting rights or equity share held	Category	Business Details
G M O Games Inc. (Formerly Net Clue Japan, GMO Entertainment Inc.) (□1)	100.0%	Consolidated Subsidiary	Online game planning and management
Payment One Inc. (□2)	100.0%	Consolidated Subsidiary	Provision and operation of online credit card network.
G M O Media Holdings Inc. (□4)	100.0%	Consolidated Subsidiary	Total strategy design for the media industry
GMO Venture Partners. (□3)	100.0%	Consolidated Subsidiary	Venture Capital business
GMO Research Institute Inc. (□5)	100.0%	Consolidated Subsidiary	An organization that researches and promotes advanced Internet technology.
G M O NetCard Inc. (Formerly Orient Credit Inc.)	98.3%	Consolidated Subsidiary	Loans and credit business
Grandsphere Inc.	92.5%	Consolidated Subsidiary	System consulting business
G M O Internet Securities Inc. (□3)	87.2%	Consolidated Subsidiary	Internet securities business
G M O Research Inc. (□5)	81.0%	Consolidated Subsidiary	Research business
GMO Hosting and Security Inc	63.8%	Consolidated Subsidiary	Web hosting business
J W o r d Inc.	62.7%	Consolidated Subsidiary	JWord (Japanese keyword search) business
Makeshop Inc. (□3)	58.7%	Consolidated Subsidiary	Online shop construction ASP
G M O Payment Gateway Inc.	52.4%	Consolidated Subsidiary	Provision and operation of credit card online network.
TeaCup Communication Inc.	51.0%	Consolidated Subsidiary	Internet community
paperboy & co. Inc.	50.2%	Consolidated Subsidiary	Web Hosting service targeting non-corporate customers
MagClick Inc.	43.1%	Consolidated Subsidiary	Internet Advertising business
G M O Venture Partners Investment Limited Partnership	31.7%	Consolidated Subsidiary	Venture Capital business
Blog Business Fund Investment Limited Partnership	9.9%	Consolidated Subsidiary	Venture Capital business
Net Clue Inc. (Korea)	100.0% (100.0%)	Consolidated Subsidiary	Online game planning and management
@YMC Corporation	100% (100.0%)	Consolidated Subsidiary	Web hosting business
Epsilon Inc. (□3)	100% (100.0%)	Consolidated Subsidiary	Provision and management of online credit card network.
Mighty Server Inc. (□3)	100% (100.0%)	Consolidated Subsidiary	Rental server business
GMO AdNetworks Inc. (formerly GMO Affiliate Inc.)(□6)	100.0% (100.0%)	Consolidated Subsidiary	RSS/Atom Feeder admin system. Community media services

GMO Blog Inc.	100% (100.0%)	Consolidated Subsidiary	Blog system administration and management
GeoTrust Japan Inc.	97.1% (97.1%)	Consolidated Subsidiary	Secure information over the Internet. Authentication services for individuals and corporations.
GMO Media Inc.	81.6% (81.6%)	Consolidated Subsidiary	Development, provision and management of various types of mail media, desktop wallpaper, information and advertisement distribution system.
GMO San Planning Inc.	75.6% (75.6%)	Consolidated Subsidiary	Advertising agency
WEBKEEPERS,INC. (USA)	70.0% (70.0%)	Consolidated Subsidiary	Rental server business
Internet Number Corporation	69.6% (69.6%)	Consolidated Subsidiary	Internet Number Service

(*)

1. Net Clue Japan Inc. and GMO Entertainment Inc. merged on April 1, 2006. Net Clue Japan was the surviving organization. At the same time the company name was changed to GMO Games.
2. Payment One Inc. became a dormant company following management integration through a transfer of its business to GMO Payment Gateway Inc. It is currently being liquidated.
3. As of the current consolidated fiscal year, GMO Internet Securities Inc., MakeShop Inc., Epsilon Inc., Mighty Server Inc., and GMO Venture Partners have become consolidated subsidiaries due to the increased importance of their businesses.
4. GMO Media Holdings Inc. was established on April 1, 2006.
5. GMO Research Institute Inc. and GMO Research Inc. are scheduled to merge on September 1, 2006. GMO Research Inc. is to be the surviving organization and the company name shall be changed to GMO Research Inc. at the time of merger.
6. GMO Affiliate Inc. was merged with GMO Ad Networks on April 1, 2006. GMO Affiliate was the surviving company and the company name was changed to GMO Ad Networks at the time of merger.
7. The company merged with three consolidated subsidiaries (GMO Communications, TELECOM ONLINE Inc. and Solis Inc. as of January 1, 2006. The company was the surviving company.
8. In the column "Percentage of voting rights or equity share held" figures in parentheses denote indirect ownership.

[Business Operations Chart] The organization is structured as follows:



Management Policy

1. Basic Management Policy

Under the corporate slogan “Internet for Everyone” and with a tireless entrepreneurial spirit the company group focuses its management resources on the provision of Internet and service infrastructure. Benefiting from the organic combination of our Internet infrastructure (Internet Use Support), Internet media (Internet Advertising Support) and Internet finance businesses, we continue to build a group in which each of the three areas work in synergy, striving to be an enterprise that makes a contribution to society and its people through the creation of Internet culture and industry.

< Management Philosophy > The following philosophies are valued by our staff and are concepts we are committed to sharing.

○Basic Principle: Internet for Everyone

1) Our Dream

To be the undisputed No.1 in the industry. (to have the No.1 market share or to be the sole player in the market)

2) Our Vision

Throughout the ongoing digital revolution we will continue to focus our management resources on providing Internet infrastructure and make substantial profits through providing our customers with exciting products and services and making them smile.

3) Our Philosophy

We believe in creating an Internet culture and industry that will excite our customers and make them smile.

2. Basic Distribution of Profits Policy

While it is the company’s policy to return profits in accordance with the state of earnings, we have adopted a distribution policy that places importance on continuously stable dividends in the long term and the sustainment of internal reserves in order to provide for the strengthening of our business structure and the development of future projects.

Having considered the objectives of this policy we intend to pay a 3 yen per share interim dividend and a final dividend of 3 yen per share, a total of 6 yen per share for the year.

3. Policy and Reasons for Lowering the Unit of Investment

The company lowered the number of shares per unit from 500 to 100 in February 2004 in order to increase the liquidity of stocks and expand the range of investors. The company also executed a 2-for-1 stock split in August 2004. The company will continue to take into consideration business results and market demands as well as carefully investigate cost and effect when considering any future changes to the Unit of Investment.

4. Management Objectives

The company group considers the ratio of sales to ordinary profit to be a gauge of profitability and an important management indicator. Currently, we have not announced or established any short term objectives however we are continuously aiming for further improvement.

5. Medium to Long-Term Business Strategies.

The group company offers a wide range of services including access, domain registration, web hosting, website construction, security, shopping carts, online credit card payment processing and Internet advertising under the marketing slogan “Becoming the Internet “Department” of Japan”. We are the only integrated business group that provides the comprehensive range of Internet services required by corporate clients to further attract customers through the Internet all in one place. Furthermore we boast a powerful sales structure and 510 000 corporate clients, predominantly in our web hosting and domain businesses. In the Internet media business we have over 21 million customers, (the majority of which are using our blog and JWord services) placing us in the third-highest ranking in Japan (Net Ratings Survey June, 2006) .

All figures are rounded down to the nearest thousand.

The Internet Finance Business established in the previous fiscal year is exhibiting signs of positive progress. The Finance segment is currently focused on the loans, credit and securities businesses and benefits from the groups corporate and individual customer base as well as its technical strengths, marketing power and group synergy.

We believe we will continue to achieve overwhelming growth through careful selection and focus and by taking full advantage of the synergy between the three areas of business; Internet Use Support (Internet Infrastructure), Internet Advertising Support (Internet Media) and Internet Finance.

6 .Issues facing the Company

Building group synergy

The company group has greatly expanded its business operations through our M&A strategy and the resulting acquisition of management resources. We believe that one of the most significant issues facing our company henceforth will be how to efficiently use those management resources.

We will continue to strive to improve group management efficiency and take full advantage of our management resources while cultivating a synergy between the business groups.

Strengthening our selling power through the diversification of sales channels.

The company group marketing is conducted with a focus on “pull-type” marketing (a method of attracting customers executed primarily through the Internet) and we benefit from the knowledge we have accumulated in this area. We plan to continue using “pull-type” marketing as our primary method as well as initiatives including the further strengthening our sales system targeting corporate customers and expanding facilities and staff at our call centers.

Improving customer satisfaction.

Given that competition in the Internet sector will increase in the future, we believe it is imperative to address the issue of improving customer satisfaction in order to encourage customers to continue using our services. Throughout the entire company we strive to improve customer satisfaction through improving the quality of services, strengthening customer support structures and promoting communication with customers. We aim to provide products and services that excite our customers and make them smile.

7 . Business Management Structure (Corporate Governance) Policy

The company recognizes that it’s most important challenge is to improve the transparency and soundness of management and encourage flexible decision making in order to ensure a continuing increase in corporate value.

□ Organizational structure as it relates to management decision-making, enactment and supervision within the company and other corporate governance structures

The Board of Directors and the Board of Auditors are responsible for supervising and auditing operations within the company. The Board of Directors consists of 13 directors who make decisions on important issues related to management as well as on matters specified by management policy and corporate laws and regulations. As supervisory body of the business and affairs of the corporation, it is required to make appropriate decisions in an efficient manner.

The Board of Auditors has 3 members, two of which are outside auditors. In accordance with the regulations of the Board of Auditors, the auditors attend Board of Director meetings and other important meetings as well as monitoring Director performance through the inspection of company operations and finances.

□ Relationships, capital ties, business transactions and other interests between the company and it’s outside auditors.

The outside auditors have no relationship of any kind with the company.

Initiatives for the improvement of Corporate Governance in the past year.

The company Board of Directors meeting is held 4 times a month. Here decisions on important management issues are made and business conditions are reviewed. It operates under the close supervision of the Board of Auditors. The company has also established an Internal Audit Office that carries out internal audits on the management and conduct of business as well as evaluating and making recommendations to group companies.

The company also intends to further improve its system of disclosure through the timely and accurate provision of information through channels such as the Internet.

Business Results and Financial Conditions

1. Business Results

We report the following information in regard to our business results for the current consolidated interim accounting period.

(1) General Conditions

During the first half of the period under review, the Japanese economy exhibited positive signs underpinned by a recovery of capital investment in the corporate sector and rising share prices. In the Internet market, the arena in which the company operates, the number of broadband service users reached 31.24 million at the end of March 2006. The internet is now firmly established and Internet use continues to grow. ()。

In this environment, as the Internet and Internet support needs of small and medium sized businesses increase we expect our customer base to expand considerably.

In an attempt to aggregate management resources, on January 1 2006, the company merged with GMO Communications Inc., TELECOM Online Inc., and Solis Inc., with GMO Internet Inc. as the surviving corporation.

According to the June 2006 Nielsen Net Ratings monthly survey of user numbers, the Internet Advertising Support Business (Internet media) had 21.52 million users ranking it third in Japan.

In the Internet Finance Business, a capital and business partnership was established with e-bank in the aim of increasing our customer base. In accordance with the Japan Association of CPA's paper "Cautionary Notes on the Inspection of Consumer Finance Companies" (March 15, 2006) in the current interim consolidated accounting term we also set up an "Excess Interest Repayment Fund" and this has influenced our business performance results for the term.

The group recorded sales of ¥23,042,961,000 (up 61.1% from the previous year), an operating profit of ¥2,009,152,000 (up 79.0% from the previous year), an ordinary profit of ¥1,927,263,000 (up 67.0% from the previous year) and a current net profit of ¥193,030,000 (down 71.0% from the previous year).

< Segment Report >

• Internet Use Support (Internet Infrastructure) Business

The Internet Use Support Business (Internet infrastructure) recorded sales of ¥8,025,892,000 (down 4.7% from the same term in the previous year) and an operating profit of ¥1,271,930,000 (down 10.6% from the previous year). There is strong growth in earnings of our main businesses in this segment, the domain, web hosting and credit card payment processing businesses. However in the previous interim consolidated accounting period there was a temporary increase in earnings due to a project involving communications for corporate customers. As a result, earnings in the current interim accounting period show a decrease.

• Internet Advertising Support (Internet Media) Business

The Internet Advertising Support Business (Internet Media) recorded sales of ¥6,018,853,000 (up 0.1% from the same period in the previous year) and an operating profit of ¥262,324,000 (a loss of ¥330,087,000 was recorded in the previous year). As a result of increased revenue and increased productivity in the JWord business, profitability has improved substantially.

• Internet Finance Business

Sales of ¥9,140,250,000 and an operating profit of ¥416,051,000 were recorded in the Internet Finance Business. This was despite costs associated with the launch of the Internet securities business G M O Internet Securities Inc. and the set up of an "Excess Interest Repayment Fund" in the current period by GMO NetCard Inc. (formerly Orient Credit Inc.) in accordance with the Japan Association of CPA's paper "Cautionary Notes Regarding the Inspection of Consumer Finance Companies" (March 15, 2006).

Changes in the Number of Broadband Subscribers (Ministry of Public Management, Home Affairs, Posts and Communications. March, 2006.)

All figures are rounded down to the nearest thousand.

2 .Financial Conditions

< Assets, Liabilities and Shareholder's Equity >

A comparison of Assets, Liabilities and Shareholders' Equity as of June 30th 2006, and June 30th 2005, reveals the following changes.

Under Current Assets, business loans have increased by ¥27,544,675,000 and in Fixed Assets the consolidated adjustment account has increased by ¥14,063,873,000. This is mostly due to GMO NetCard Inc. (formerly Orient Credit Inc.) becoming a consolidated subsidiary. In regard to Liabilities, short-term loans payable increased by ¥27,859,308,000, the current portion of long-term debt increased by ¥9,900,982,000 and bonds increased by ¥4,075,000,000. This is also mainly due to GMO NetCard Inc. (formerly Orient Credit Inc.) becoming a consolidated subsidiary as well as borrowing in order to redeem ¥31 billion worth of convertible type bonds with share warrants issued in August 2005.

3 .Cash Flows

Consolidated cash and equivalents (hereafter "funds") in the current interim consolidated accounting period were as follows. There was an expense of ¥353,381,000 for corporate taxes etc. under Cash Flows from Operating Activities. In regard to Cash Flows from Investment Activities, expenditure on the acquisition of intangible fixed assets and the acquisition of investments in securities totaled ¥423,266,000. Despite making loan repayments Cash Flows from Financing Activities was ¥686,139,000 as a result of income including revenue gained from issuing new stock to minority shareholders'. The overall result is that funds at the end of the current interim consolidated accounting term were ¥23,931,370,000. This is ¥12,603,919,000 higher than the figure at the end of the same term in the previous year.

The state of each cash flow and the factors contributing to that state in the current interim consolidated accounting period is as follows.

Cash Flows from Operating Activities decreased ¥353,381,000 (in the same period of the previous year it decreased ¥378,262,000). While a net profit before adjustments for tax etc. of ¥1,330,314,000 was recorded, the decrease was a result of a ¥534,295,000 increase in operating loans and a payment of ¥2,394,691,000 in corporate taxes etc.

In regard to Cash Flow from Investing Activities, despite the receipt of ¥1,338,506,000 for the sale of shares in consolidated subsidiaries and ¥1,790,730,000 for the sale of investments in securities there was an overall decrease of ¥423,266,000 (there was a ¥412,426,000 decrease in the same period of the previous year). This was due to factors including an expense of ¥1,790,730,000 incurred for the acquisition of investments in securities, and the acquisition of intangible fixed assets worth ¥1,114,207,000.

In regard to Cash Flow from Financing Activities an expense of ¥31,075,000,000 was incurred for the redemption of bonds while repayments for long-term and short term loans cost ¥15,629,496,000. However, income from long-term and short-term loans was ¥45,802,304,000 and the issuance of stock to minority shareholders brought in an income of ¥1,881,735,000. As a result Cash Flow from Financing Activities increased ¥686,139,000 (in the same period of the previous year there was a 14% decrease) .

4 . Business Risks

(1) Competition

The group company provides competitive services that respond to the needs of users of our Internet infrastructure business, Internet Use Support (predominantly access, server and domain businesses) and Internet Advertising Support Business (media). We believe our predominance in the industry is a result of our competitive business development. However there is a possibility of increasing competition from telecommunications companies, electric companies and existing independent companies in individual business areas. It is also possible that a new group with the same business structure will emerge as a result of business partnerships and mergers. If in the future, competition for gaining new customers intensifies and revenue declines, the necessity of reducing fees may arise along with an increase in expenses such as capital expenditure and advertising. This could potentially have a serious impact on our business results.

All figures are rounded down to the nearest thousand.

(2) Technological Innovation

The progress of technological innovations in Internet-related technology is rapid and in response to this industry standards and customer needs are constantly changing. As a result new services, new technology and new products are constantly appearing. If we are slow in taking up these new technologies we risk the services and equipment we provide becoming stale resulting in reduced competitiveness with potentially serious consequences. We believe it is essential to concentrate our efforts on improving the ability of both our systems and our staff as well as to pay adequate attention to developments and trends in new technologies.

(3) Uncollected Debt

The majority of the Internet Use Support (Internet infrastructure) trade accounts receivable is made up of small accounts of less than ¥10,000 yen a month. These accounts are mostly held by individual users, small and medium-sized businesses and SOHO's. For the customer's convenience a wide range of payment methods are available including, bank transfer, payment at a post office or convenience store and payment by credit card. However, if the customer does not actively transfer the money then there is a delay in recovery of funds.

In provision for non-collection of receivables, the company has established a reserve for the entire amount of receivables in arrears that are over a year past the point where they are considered uncollected receivables. We also have a reserve for receivables that are in arrears for less than one year past becoming uncollected receivables. This is calculated based on past bad debt. Receivables over two years past becoming uncollected debt that are not expected to be recovered are written off through the appropriation of bad debt reserves.

The company makes every effort possible to collect receivables through making demands via telephone, post e-mail etc. As of June 30, 2006 our bad debt reserve was 212 million yen. An increase in the number of accounts in arrears, or the amount in arrears caused by economic conditions or bankruptcies would possibly impact on our business results.

(4) Legal Regulations

The company group is subject to the following legal regulations. However, as Internet use continues to spread, there is a possibility that further regulations will have an impact on the group company as a result of new laws aimed at Internet users and related businesses, clarification of the application of existing laws or other voluntary restraints that may be requested.

(a) Telecommunications Business Law

In light of the public nature of the telecommunications business, the Telecommunications Business Law was enacted to ensure the smooth provision of telecommunications services and to protect the interests of users by maintaining proper and reasonable conduct in the industry. Further the law seeks to ensure smooth growth in telecommunications while at the same time as protecting the interests and convenience of the public. As a designated telecommunications carrier in the internet industry the company is subject to laws such as those regarding censorship restrictions, the protection of confidential communications, telecommunications equipment and the connection of telecommunications equipment.

(b) Laws Regulating the Adult Entertainment Business

These laws were enacted to regulate the business hours, locations etc. of adult entertainment and related industries with the aim of maintaining public morals and a healthy environment as well as preventing acts with the potential to impede the sound development of young people. The laws restrict the entry of minors into such places of business. In addition it seeks to ensure fair and reasonable conduct in the adult entertainment business. The law seeks to directly control consumers in this industry.

However this law also applies to the server space the company as an Internet connection service we provide users with server space. Connection companies have an obligation to manage control of their own servers. (effective April 1, 1999)

The company has an agreement with registered website construction agencies concerning websites published by customers. The agreement explicitly states that responsibility for web content lies with the author of the site. In addition to this we have made every effort to widely publicize the laws and regulations and to check the contents of websites. We have also independently established our own regulations regarding illegal and harmful information on the Internet. However there is no guarantee that these measures will be sufficient to prevent the possibility of a user, other related person or governing body lodging a claim or demanding damages in relation to a site published by one of our customers.

(c) Laws Concerning Unauthorized Computer Access

This law was enacted to prevent computer crimes committed via telecommunications lines, to maintain order in telecommunications and to regulate access control. The law is also aimed at contributing to the sound development of an advanced information-oriented society. It prohibits direct unauthorized computer access.

Under this law, being a company that controls the operation of computers connected to telecommunications lines, the company is obligated to take measures to safeguard against unauthorized access to computers.

(d) Laws Concerning Limitation of Damage Claims Against Specific Telecommunications Service Providers and Disclosure of Sender Information

The aim of this law is to ensure the proper transmission of information in specified telecommunications in light of the increasing dissemination of information over the internet. The law provides the right to demand the disclosure of

sender information and limits damages claims against specific telecommunications service providers. The company is subject to these laws as a specified telecommunications carrier. Although the scope of company responsibility is restricted under these laws it does affect the activities of senders of information. When the company is dealing with issues that fall under this law we will be required to make critical judgments which, if not appropriate, could result in us facing claims or damages from users or other related people and organizations.

(e) Specified Commercial Transaction Laws

The Specified Commercial Transaction Laws were enacted to protect the interests of the purchaser by ensuring that specific commercial transactions (e.g. door-to-door sales, mail-order sales) are fair and just, to prevent any damage being incurred by the purchaser and to ensure the smooth and proper distribution of goods thereby contributing to the sound development of the national economy. The law regulates a number of specific transactions. One of these is restraints imposed on the method of display of mail-order sales advertisements. This includes electronic methods. The company e-mail advertisement business is subject to the above restraints and it is possible that other operations could be effected in the future.

(f) Laws Concerning E-mail Transmission

This law aims to cultivate a positive environment for email users, in light of the necessity that has arisen to prevent problems associated with a commercial business sending advertising email in bulk. The law requires the sender's contact details to be contained within the email and prohibits the sending of email to users who have indicated they do not wish to receive it.

The company's email advertising service is subject to this law and its methods of operation may be restricted.

(g) Laws Protecting Personal Information

In an advanced information communications society where the use of personal information is increasing, the law aims to consider the usefulness of personal information and to protect personal rights and interests. Under this law, companies that handle personal information are subject to restrictions such as those regarding the use of personal information and its provision to a third party and are under obligation to ensure responsible management, adequate guarantees and reasonable methods of acquisition.

In accordance with these laws, the company is required to establish a procedure for adequately explaining and acquiring user permission when using personal information or passing it on to a third party, as well as taking steps to ensure the responsible management of such information.

The obligations above are based on the supplementary regulations that came into effect on April 1, 2005.

(5) The Possibility of Litigation

The Internet provides an accessible information retrieval and electronic mail system, and provides an enormous variety of information, in almost any field.

The company group strives to provide reliable services and systems. We have an uninterruptible power supply system, back up systems etc. that allow us to provide management, maintenance and customer support services 24 hours a day 365 days a year in order to deal with any problems that arise. However if a problem occurs that can not be dealt with through the group company crisis management system, damage may be incurred by users of the company group services. Although our service agreement contract contains an exemption clause, this kind of incident has the potential to have a severe impact on the company and it's business results. While no such lawsuit or other appeal has been brought against the company to date there is a possibility of such an occurrence in the future. .

(Internet Finance Business)

(6) Legal Regulations

The two laws pertaining to the Internet Finance business are the money lending control law and the law regulating the receipt of capital subscriptions, deposits and interests on deposits (hereafter "the capital subscription law").

The loans and credit business of the company consolidated subsidiary GMO NetCard Inc. (formerly Orient Credit Inc.) is impacted by the interest rate restrictions on loans that are set forth in the capital subscription law. The amended money lending control law and the capital subscription law state that "the upper limit on interest rates will be examined and revised as necessary taking into account demand for funding and other economical and financial conditions, the conditions of the setting up of interest rates on loans according to the financial resources and credit history of the borrower and the conditions of the money-lender 3 years after the date of enforcement of the law (January 2007)." The earnings and performance of the group may be affected by an interest rate restriction being imposed that is lower than the current levels at GMO NetCard.

According to Paragraph 1 Article 1 of the Interest Rate Restriction Law, the interest rate on consumer loan

contracts for cash that exceed the limitations imposed by the law become invalid. (an amount calculated at an annual interest rate of 20% for a principal of less than 100,000 yen, 18% for a principal of 100,000 yen or more and 15% for a principal of 1,000,000 yen or more). However, Paragraph 2 Article 1 of the law states that if the borrower has voluntarily paid excess interest, they may not seek repayment. Article 43 of the money lending control law states that if the document required by law is delivered when the contract begins, then the borrower voluntarily paid excess interest, it shall be deemed a valid interest payment irrespective of Paragraph 1 Article 1 of the Interest Rate Restriction Law.

The interest rate on GMO NetCard Inc. (formerly Orient Credit Inc.) loans exceeds the upper limit under these laws. Therefore it is possible that demands from the public for the return of excess interest could impact on the group earnings and performance results.

(7) Bad Debt Risk

GMO NetCard Inc. (formerly Orient Credit Inc.) is continually strengthening its credit control and management systems and as a result credit costs are declining.

However if changes in the business environment such as a deterioration in economic performance or amendments to the law were to occur there could be an increase in the number of nonperforming loans thereby impacting on the earnings and results of the company group.

(8) Fund Procurement Laws

GMO NetCard Inc. (formerly Orient Credit Inc.) has established a number of methods for the procurement of funds including borrowing from financial institutions, a securitization of loans program and straight bonds and it has endeavored to optimize fund procurement costs. After becoming a consolidated subsidiary of the company group, it has been able to further reduce fund procurement costs due to the additional credit confidence.

Currently GMO NetCard has no difficulty in procuring funds. However, a sudden rise in interest rates or change in the fund procurement environment could have an impact on GMO NetCard thus influencing the earnings and results of the company group.

5. Forecasts for December 2006

The following tables show forecast results for the current period.

Please note that the GMO Group business environment is subject to significant change in a short period of time. As such, actual results may vary from those projected here

• Consolidated Results Forecast for the term January 1, 2006 to December 1, 2006.

	Fiscal Year ending December 2006	Percentage Increase / Decrease from the same period in the previous year	Fiscal Year Ending December 2005
	(¥millions)	(%)	(¥millions)
Sales	51,000	37.0	37,219
Operating Profit	6,500	49.3	4,352
Ordinary Profit	6,350	54.8	4,103
Current Net Profit	2,200	-32.5	3,258

• Non-Consolidated Results Forecast for the term January 1, 2006 to December 1, 2006.

	Fiscal Year ending December 2006	Percentage Increase / Decrease from the same period in the previous year	Fiscal Year Ending December 2005
	(¥millions)	(%)	(¥millions)
Sales	12,200	23.0	9,921
Operating Profit	1,100	5.2	1,045
Ordinary Profit	1,843	16.6	1,580
Current Net Profit	1,693	0.3	1,687

(For Reference)

Table: Quarterly Changes by Segment

1 Sales by Segment

(unit: ¥millions)

	2005 2Q	2005 3Q	2005 4Q	2006 1Q	2006 2Q
Internet Use Support Business (Internet Infrastructure Business)					
Access	716	696	655	633	595
Domain acquisition	380	367	396	457	502
Web Hosting	1,763	1,795	1,819	1,872	1,956
Website construction Support	221	190	231	268	214
Security	68	70	67	108	101
Credit Card Payment processing	303	432	371	384	404
Enterprise communications	377	202	209	99	77
Other	20	55	76	202	146
Segment Sales Total	3,851	3,809	3,827	4,027	3,998
Internet Advertising Support Business (Media Business)					
Internet media construction	447	492	474	442	420
Internet advertising sales	1,587	1,581	1,946	1,837	1,388
JWord	834	783	712	834	904
Online games	210	199	184	192	227
Other	19	37	74	82	66
Total	3,099	3,094	3,393	3,389	3,008
Adjustment for internal transactions	(237)	(236)	(257)	(146)	(232)
Segment Sales Total	2,861	2,857	3,135	3,243	2,775
Internet Finance Business					
Internet finance	-	4,759	4,629	4,506	4,633
Segment Sales Total	-	4,759	4,629	4,506	4,633
Adjustment for internal transactions	(66)	(16)	(86)	(63)	(78)
Consolidated Sales	6,646	11,409	11,506	11,713	11,329

2 Operating Profit by Segment

(unit: ¥millions)

	2005 2Q	2005 3Q	2005 4Q	2006 1Q	2006 2Q
Internet Use Support Business (Internet infrastructure)	608	658	470	662	609
Internet Advertising Support Business (media)	-416	-38	139	205	57
Internet Finance Business	-	692	1,288	74	341
Sub Total	192	1,311	1,898	942	1,007
Adjustment for internal transactions	15	19	0	38	20
Consolidated Operating Profit	208	1,331	1,898	980	1,028

Finance Business: Loans and Credit Business Indicators

(unit: ¥millions)

Term Item	End of the previous interim consolidated accounting period (June 30, 2005)	End of the current interim consolidated accounting period (June 30, 2006)	End of the previous consolidated fiscal year (December 31, 2005)
Operating Loans Outstanding	79,678	80,498	80,310
Unsecured Loans	79,124	75,786	77,892
Secured Loans	553	4,712	2,417
Number of Accounts	192,471	176,497	184,596
Unsecured Loans	192,285	176,313	184,408
Secured Loans	186	184	188
Bad Debt Expenses	3,573	3,436	6,247
Allowance for Bad Debts	- 6,950	-6,100	- 6,280

- (Notes) 1. Operating Loans/ Number of Accounts includes loans outstanding that were off-balance sheet due to credit liquidation (End of the current interim consolidated accounting period: ¥52,954,000,000, End of the previous interim consolidated accounting period: ¥60,619,000,000, End of the previous consolidated fiscal year: ¥53,300, 000,000)
2. Allowance for Bad Debts includes the outstanding balance for bad debt that was off-balance sheet due to credit liquidation. (End of the current interim consolidated accounting period: None, End of the previous interim consolidated accounting period: None End of the previous consolidated fiscal year: None)
3. Bad debt expenses are the aggregate of bad debt losses (bad-debt write-offs) and the provision for the allowance for bad debt.
4. G M O Net Card Inc. (Formerly Orient Credit Inc.) became a consolidated subsidiary in September 2006 after the company acquired their stock. It was not included in the scope of the consolidation at the end of the previous interim consolidated accounting period.

Changes in Business Results and Financial Conditions by Quarter (Consolidated Basis)

(unit: ¥millions)

	2005 2Q	2005 3Q	2005 4Q	2006 1Q	2006 2Q
Operating Revenue	6,646	11,409	11,506	11,713	11,329
Operating Profit	208	1,331	1,898	980	1,028
Ordinary Profit	217	1,163	1,784	1,008	918
Current Net Profit	210	434	2,158	33	159
Net Assets	27,487	85,760	88,057	90,583	92,844
Shareholders' Equity	13,627	14,076	16,282	17,387	17,276

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All figures are rounded down to the nearest million.

Changes in Business Results and Financial Conditions by Quarter (Non-Consolidated)

(unit: ¥millions)

	2005 2Q	2005 3Q	2005 4Q	2006 1Q	2006 2Q
Operating Revenue	2,508	2,419	2,365	2,969	2,969
Operating Profit	186	302	236	274	303
Ordinary Profit	237	306	334	494	831
Current Net Profit	161	176	598	587	830
Net Assets	16,017	50,355	46,358	49,411	49,084
Shareholders' Equity	11,713	11,954	12,574	14,359	14,910

【Interim Consolidated Financial Statements】

(1) 【Interim Consolidated Financial Statements】

1 【Interim Consolidated Balance Sheet】

Item	Notes	End of Previous Consolidated Accounting Period (June 30, 2005)		End Of Current Consolidated Accounting Period (June 30, 2006)		Balance Sheet at the End of the Previous Consolidated Accounting Period. (December 31, 2005)	
		(¥Thousands)	Compos ition (%)	(¥Thousands)	Compos ition (%)	(¥Thousands)	Compos ition (%)
(Assets)							
1 Current Assets							
1 Cash and equivalents		11,467,451		24,071,370		24,192,882	
2 Notes and accounts receivable		2,810,998		2,889,226		2,965,738	
3 Inventory assets		28,685		50,055		31,605	
4 Deferred tax asset		633,108		2,080,624		1,544,780	
5 Short-term loans receivable		97,249		35,295		-	
6 Operating loans	□2,5	-		27,544,675		27,010,379	
7 Other		996,546		6,309,307		5,350,565	
Allowance for doubtful debts		-329,222		-6,375,101		-6,589,597	
Total Current Assets		15,704,818	57.1	56,605,453	61.0	54,506,355	61.9
2 Fixed Assets							
1 Tangible fixed assets							
(1) Buildings and structures	□1	176,650		288,147		255,231	
(2) Tools and equipment	□1	318,453		550,409		532,809	
(3) Other	□1	48,666		59,396		40,566	
Total tangible fixed assets		543,770	2.0	897,954	1.0	828,607	0.9
2 Intangible fixed assets							
(1) Goodwill		477,568		497,807		409,072	
(2) Software		565,101		2,683,090		2,053,300	
(3) Consolidated adjustments account		2,312,203		16,376,076		16,792,246	
(4) Other		394,557		342,068		459,380	
Total intangible fixed assets		3,749,430	13.6	19,899,043	21.4	19,713,999	22.4
3 Investments and Other Assets							
(1) Investments in securities	□2	5,522,403		8,635,227		6,676,076	
(2) Security deposit		1,035,180		894,690		1,041,181	
(3) Deferred tax asset		323,645		503,157		678,309	
(4) Other		615,448		5,424,990		4,626,556	
Allowance for doubtful debts		-7,331		-15,668		-13,718	
Total investments and other assets		7,489,346	27.3	15,442,396	16.6	13,008,406	14.8
Total Fixed Assets		11,782,547	42.9	36,239,394	39.0	33,551,013	38.1
Total Assets		27,487,365	100.0	92,844,847	100.0	88,057,369	100.0

Item	Notes	End of Previous Consolidated Accounting Period (June 30, 2005)		End Of Current Consolidated Accounting Period (June 30, 2006)		Balance Sheet at the End of the Previous Consolidated Accounting Period. (December 31, 2005)	
		(¥Thousands)	Composition (%)	(¥Thousands)	Item	Notes	Composition (%)
(Liabilities)							
1 Current Liabilities							
1 Notes and accounts Payable		1,202,083		855,510		1,145,053	
2 Short term debt	□ 2	2,178,000		30,037,308		7,591,000	
3 Current portion of long term debt	□ 2	—		9,900,982		8,300,400	
4 Bonds to be redeemed within a year		—		150,000		150,000	
5 Convertible bonds to be redeemed within a year		—		—		31,000,000	
6 Accrued accounts payable		2,283,287		2,116,945		2,288,712	
7 Accrued corporation tax etc.		752,671		1,017,300		2,610,787	
8 Allowance for bonuses		108,832		132,377		108,681	
9 Advance payments received		1,248,938		1,736,563		1,382,220	
10 Excess interest repayment fund		—		1,107,600		—	
11 Other liabilities		1,535,569		3,911,836		1,858,193	
Current total liabilities		9,309,382	33.9	50,966,424	54.9	56,435,049	64.1
2 Fixed Liabilities							
1 Bonds		—		4,075,000		4,150,000	
2 Long-term debt	□ 2	—		11,571,868		5,445,950	
3 Long-term accrued accounts payable		560,353		638,271		656,317	
4 Deferred tax liability		78,412		1,191,289		2,793	
5 Reserve for director and auditor retirement benefits		—		56,400		50,200	
6 Reserve for employee retirement benefits		—		198,242		192,238	
7 Other fixed liabilities		52,950		70,561		157,849	
Total Fixed Liabilities		691,716	2.5	17,801,632	19.2	10,655,349	12.1
3 Special Law Reserve Funds							
Securities transaction liability reserve		—		208		—	
Special Law Reserve Funds Total		—		208		—	
Total Liabilities		10,001,099	36.4	68,768,266	74.1	67,090,398	76.2
(Minority equity)							
Minority equity		3,858,485	14.0	—	—	4,684,079	5.3
(Shareholders' Equity)							
1 Capital stock		3,311,130	12.1	—	—	3,311,130	3.8
2 Capital reserve		5,309,729	19.3	—	—	5,353,357	6.1
3 Earned surplus		5,024,284	18.3	—	—	7,617,791	8.6
4 Other gaps in appraisal of securities		31,509	0.1	—	—	28,214	0.0
5 Equity adjustment for foreign currency translation		13,668	0.0	—	—	-3,621	-0.0
6 Treasury stock		-62,540	-0.2	—	—	-23,980	-0.0
Total Shareholders' Equity		13,627,780	49.6	—	—	16,282,890	18.5

Total Liabilities, Minority Equity and Shareholders' Equity		27,487,365	100.0		—	—	88,057,369	100.0
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Item	Notes	End of Previous Consolidated Accounting Period (June 30, 2005)		End Of Current Consolidated Accounting Period (June 30, 2006)		Balance Sheet at the End of the Previous Consolidated Accounting Period. (December 31, 2005)	
		(¥Thousands)	Compos ition (%)	(¥Thousands)	Item	Notes	Compos ition (%)
(Net Assets)							
1 Shareholders' Equity							
1 Capital stock		—		3,311,130	3.6	—	
2 Capital surplus		—		5,358,992	5.8	—	
3 Earned surplus		—		7,501,438	8.0	—	
4 Treasury stock		—		-7,108	-0.0	—	
Total Shareholders' Equity		—		16,164,452	17.4	—	
2 Discrepancies in Appraisals, Conversions etc.							
1 Other gaps in appraisal of securities		—		1,117,322	1.2	—	
2 Hedging profit/loss carried forward		—		8,111	0.0	—	
3 Equity adjustment for foreign currency translation		—		-12,966	0.0	—	
Total Discrepancies in Appraisals, Conversions etc.		—		1,112,468	1.2	—	
3 Share Warrants		—		34,398	0.0	—	
4 Minority Equity		—		6,765,262	7.3	—	
Total Net Assets		—		24,076,581	25.9	—	
Total Liabilities Net Assets		—		92,844,847	100.0	—	

2 【Interim Consolidated Profit and Loss Statement】

Item	Notes	Previous Interim Accounting Period (from January 1, 2005 to June 30, 2005)		Current Interim Accounting Period (from January 1, 2006 to June 30, 2006)		Previous Consolidated Fiscal Year Profit and Loss Statement (extract) (from January 1, 2005 to December 31, 2005)					
		(¥ thousands)	(%)	(¥ thousands)	(%)	(¥ thousands)	(%)				
1 Operating Revenue			14,304,032	100.0		23,042,961	100.0		37,219,808	100.0	
2 Business Expenses	* 1		6,139,986	42.9		6,674,202	28.9		12,814,347	34.4	
3 Sales and General Administrative Expenses	* 2		7,041,843	49.2		14,359,606	62.3		20,052,980	53.9	
Operating profit			1,122,201	7.9		2,009,152	8.7		4,352,481	11.7	
3 Non Operating Income											
1 Interest, dividends received			7,031			2,956			25,386		
2 Fees received			4,911			34,072			52,297		
3 Bad debt recovered			1,818			321			2,152		
4 Profit on investment partnership			11,715			23,973			28,349		
5 Profit on currency exchange			—			—			16,769		
6 Business compensation			48,300			—			48,300		
7 Other			39,823	113,600	0.8	46,461	107,789	0.5	74,690	247,946	0.6
4 Non Operating Expenses											
1 Interest paid			9,791			58,061			19,020		
2 Stock issuance costs			10,626			2,058			37,866		
3 Bond issuance costs			—			—			21,126		
4 Loss from investment partnership			10,264			—			3,870		
5 Loss on currency exchange			7,637			1,516			—		
6 Stock offering costs	* 4		13,473			—			—		
7 Settlement costs			—			—			341,470		
8 Payment handling fees			—			109,630			—		
9 Other			29,767	81,560	0.6	18,411	189,678	0.8	73,976	497,330	1.3
Ordinary Profit				1,154,241	8.1		1,927,263	8.4		4,103,097	11.0
5 Extraordinary Profit											
1 Gain on previous term profit and loss adjustment	* 5		—			14,069			34,868		
2 Gain on sales of fixed assets	* 6		11,319			—			14,287		
3 Gain on sale of investments in securities			446,176			822,756			459,788		
4 Gain on sale of shares in affiliated companies			319,304			342,045			3,010,629		
5 Gain on change in equity investees	* 7		709,995			303,525			1,364,951		
6 Gain on transfer of business			—			6,185			—		
7 Reversal of allowance for doubtful debts			—	1,486,795	10.4	20,820	1,509,401	6.6	20,595	4,905,120	13.2
6 Extraordinary Loss											
1 Loss on previous term profit and loss adjustment	* 8		—			41,987			11,093		
2 Loss on sale of fixed assets	* 9		94,785			—			95,673		
3 Loss on retirement of fixed assets	* 10		276,462			48,604			489,504		
4 Loss on devaluation of goodwill	* 11		64,914			—			82,193		
5 Loss on reevaluation of investments in securities			401			547,702			330,800		
6 Loss on sale of investments in securities			—			7			—		
7 Loss on devaluation of affiliated company			—			25,000			10,049		
8 Loss on sale of shares in affiliated company			—			1,100			6,932		

9	Loss on devaluation of investments		—					41,649			
10	Shrinkage		—			78,347		—			
11	Loss on change in equity investees	*12	230,889			9,351		246,289			
12	Penalty for breaking a lease	*13	72,471			10,618		75,158			
13	Business liquidation loss	*14	372,303			1,993		773,325			
14	Addition to excess interest repayment fund		—			1,050,680		—			
15	Change of company name expenses		37,566			—		37,566			
16	Payment for damages	*15	160,110			—		160,110			
17	Loss on redemption of debentures		—			—		54,979			
18	One-time depreciation advance payment					278,929					
			Previous Interim Accounting Period (from January 1, 2005 to June 30, 2005)			Current Interim Accounting Period (from January 1, 2006 to June 30, 2006)			Previous Consolidated Fiscal Year Profit and Loss Statement (extract) (from January 1, 2005 to December 31, 2005)		
Item		Notes	¥ thousands		(%)	¥ thousands		Item	¥ thousands		(%)
19 Other			—	1,309,903	9.2	12,027	2,106,350	9.2	—	2,415,327	6.5
Interim (current) net profit before adjustment for taxes				1,331,133	9.3		1,330,314	5.8		6,592,891	17.7
Corporation tax, municipal tax and enterprise tax			800,292			882,655			3,222,231		
Adjustment for corporate tax etc.			-246,370	553,922	3.8	6,649	889,305	3.9	-266,035	2,956,196	7.9
Minority shareholder profits				110,607	0.8		247,978	1.1		377,741	1.0
Interim (current) Net Profit				666,603	4.7		193,030	0.8		3,258,953	8.8

□ 【Interim Consolidated Earned Surplus Statement】

		Previous Interim Consolidated Accounting Term (from January 1 2005 to June 30, 2005)		Previous Consolidated Fiscal Year Earned Surplus Statement (Extract)	
Item	Notes	¥thousands		¥thousands	
(Capital Surplus)					
1	Capital Surplus beginning of term balance			5,284,148	5,284,148
2	Increase in Capital surplus				
1	Issuance of new shares for stock swap		-		30,692
2	Gain on sales of treasury stock		25,580	25,580	38,515
3	Capital Surplus Balance at the End of the Interim Term			5,309,729	5,353,357
(Earned Surplus)					
3	Earned Surplus Beginning of Term Balance			4,768,047	4,768,047
4	Increase in Earned Surplus				
1	Interim (current) net profit		666,603		3,258,953
2	Increase in earned surplus due to reduction in consolidated subsidiaries		2,471		2,471
3	Increase in earned surplus due to merger		-	669,075	5,226
4	Decrease in Earned Surplus				
1	Dividends		367,330		367,330

2 Bonus for directors and auditors	36,063		36,063	
3 Decrease in earned surplus due to reduction in consolidated subsidiaries	-		4,023	
4 Decrease in earned surplus due to merger	8,805		8,805	
5 Decrease in earned surplus due to absorption type demerger	638	412,838	684	416,907
5 Earned Surplus Balance at the End of the Interim Term		5,024,284		7,617,791

□ 【Interim Consolidated Statement of Changes in Shareholders' Equity etc.】

Current Interim Consolidated Accounting Term

(from January 1, 2006 to June 30, 2006)

	Shareholders' Equity				
	Capital Stock	Capital Surplus	Earned Surplus	Treasury Stock	Total Shareholder's Equity
Balance at December 31, 2006 (¥ thousands)	3,311,130	5,353,357	7,617,791	-23,980	16,258,297
Change in the interim consolidated accounting period					
Issuance of new shares					
Profit distribution dividends			-185,821		-185,821
Profit distribution through staff bonuses			-55,719		-55,719
Interim net profit			193,030		193,030
Decrease in earned surplus due to merger			-3,533		-3,533
Decrease in earned surplus due to increase in consolidated subsidiaries			-64,307		-64,307
Sale of treasury stock		5,634		16,872	22,507
Change in items other than Shareholders' Equity in the interim consolidated accounting period (net amount)					
Total change in the interim consolidated accounting period (¥ thousands)	-	5,634	-116,352	16,872	-93,844
Balance at June 30, 2006 (¥ thousands)	3,311,130	5,358,992	7,501,438	-7,108	16,164,452

	Discrepancies in appraisals, conversions etc.					Share Warrants	Minority Equity	Total Net Assets
	Other gaps in appraisal of securities	Hedge profit/loss carried forward	Gap after Reevaluation of land	Currency Exchange Adjustment	Discrepancies in appraisals, conversions etc.			
Balance at December 31, 2006 (¥ thousands)	28,214	-	-	-3,621	24,593	-	4,684,079	20,966,970
Change in the interim consolidated accounting period								
Issuance of new shares								
Distribution of profit dividends								-185,821
Profit distribution through staff bonuses								-55,719
Interim net profit								193,030
Decrease in earned surplus due to merger								-3,533
Decrease in earned surplus due to increase in consolidated subsidiaries								-64,307
Sale of treasury stock								22,507
Change in items other than Shareholders' Equity in the interim consolidated accounting period (net amount)	1,089,108	8,111	-	-9,344	1,087,874	34,398	2,081,183	3,203,456
Total change in the interim consolidated accounting period (¥ thousands)	1,089,108	8,111	-	-9,344	1,087,874	34,398	2,081,183	3,109,611
Balance at June 30, 2006 (¥ thousands)	1,117,322	8,111	-	-12,966	1,112,468	34,398	6,765,262	24,076,581

3 【Interim Consolidated Cash Flow Statement】

		Previous Interim Consolidated Accounting Term (from January 1, 2005 to June 30, 2005)	Current Interim Consolidated Accounting Term (from January 1, 2006 to June 30, 2006)	Previous Consolidated Fiscal Year Cash Flow Statement (Extract) (from January 1, 2005 to December 31, 2005)
Item	Notes	(¥ thousands)	(¥ thousands)	(¥ thousands)
1 Cash Flows from Operating Activities				
Current interim net profit before adjustments for tax etc.		1,331,133	1,330,314	6,592,891
Depreciation cost		289,900	668,879	906,553
Amortization of consolidated adjustment account		292,001	666,427	957,428
Decrease in allowance for doubtful debts		-54,425	-212,594	-297,663
Increase in allowance for bonuses		71,118	29,698	-9,786
Addition to reserves for the provision of retirement benefits		—	6,200	19,627
Addition to the excess interest repayment fund		—	1,107,600	—
Profit on sale of investment in securities		-446,176	-822,756	-459,788
Profit on sale of shares in affiliated companies		-319,304	-342,045	-3,010,629
Gain on transfer of goodwill		—	-6,185	—
Interest, dividends received		-7,031	-2,956	-25,386
Interest paid		9,791	58,061	18,948
Currency conversion profit/loss		—	—	-36,592
Stock issuance costs		10,626	2,058	37,866
Loss on sale of investments in securities		—	—	1
Loss on devaluation of investments in securities		401	547,702	330,800
Loss on devaluation of stock in affiliated companies		—	25,000	10,049
Capital loss on appraisal		—	—	41,649
Depreciation of goodwill		64,914	—	82,193
Loss on retirement of fixed assets		276,462	48,604	489,504
Loss on sale of fixed assets		94,785	—	95,673
Gain on sale of fixed assets		-11,319	—	-14,287
Shrinkage		—	78,347	—
Loss from change of equity investees		230,889	9,351	246,289
Gain from change of equity investees		-709,995	-303,525	-1,364,951
Increase in Operating Loans		—	-534,295	-3,074,384
Increase in Securities Deposits		—	463,350	—
Increase in Segregated Trust Account		—	-710,000	—
Increase in Security Deposits Received		—	752,010	—
Increase (decrease) in accounts receivable		806,647	80,233	685,514
Increase (decrease) in inventory assets		17,385	-17,164	16,912
Other increases (decreases) in assets		-174,951	-1,077,002	1,472,880
Increase in purchase debts		-97,377	-823,946	-173,401
Other increases (decreases) in liabilities		-229,133	1,146,690	-1,001,403
Directors bonuses paid		-43,025	-69,252	-43,025
Total		1,403,319	2,098,805	2,493,484

		Previous Interim Consolidated Accounting Term (from January 1, 2005 to June 30, 2005)	Current Interim Consolidated Accounting Term (from January 1, 2006 to June 30, 2006)	Previous Consolidated Fiscal Year Cash Flow Statement (Extract) (from January 1, 2005 to December 31, 2005)
Item	Notes	(¥ thousands)	(¥ thousands)	(¥ thousands)
Interest and dividends received		7,208	2,265	25,300
Interest paid		-9,492	-59,761	-19,020
Payment of liquidated damages		—	—	-160,110
Payment of corporate tax etc.		-1,779,297	-2,394,691	-2,498,012
Cash Flow from Operating Activities		-378,262	-353,381	-158,357
2 Cash Flow from Investing Activities				
Expenditure on deposit of fixed deposit		—	—	-8
Revenue accrued on return of fixed deposit		97,300	850,000	697,308
Expenditure on acquisition of tangible fixed assets		-177,279	-217,913	-417,512
Revenue accrued on sale of tangible fixed assets		615,919	—	629,649
Expenditure on acquisition of intangible fixed assets		-302,397	-1,114,207	-769,332
Revenue accrued on sale of intangible fixed assets		37,048	—	79,797
Expenditure on acquisition of investments in securities		-1,481,346	-1,790,730	-2,462,387
Revenue accrued on sale of investments in securities		828,205	1,338,506	839,655
Expenditure incurred on redemption of investments in securities		277,500	50,000	277,500
Expenditure on acquisition of stock in subsidiaries		-265,716	-94,500	-2,100,281
Revenue accrued on sale of stock in subsidiaries		338,470	354,200	3,364,051
Expenditure on acquisition of stock in new consolidated subsidiaries		-278,233	—	—
Receipt of subsidiary funds through stock swap		—	—	13,564
Decrease due to change in scope of consolidation after merger of subsidiaries		-57,265	—	-57,265
Expenditure on the acquisition of stock in subsidiaries related to the change in scope of consolidation		—	—	-22,850,289
Expenditure on loans		-102,481	-2,550	-209,053
Revenue accrued on collection of loans		43,973	108,273	112,344
Expenditure on transfer of business		-30,207	—	-30,207
Revenue accrued on other investing activities		228,307	281,273	565,560
Expenditure on other investing activities		-184,222	-185,620	-416,267
Cash Flows from Investing Activities		-412,426	-423,266	-22,733,175

		Previous Interim Consolidated Accounting Term (from January 1, 2005 to June 30, 2005)	Current Interim Consolidated Accounting Term (from January 1, 2006 to June 30, 2006)	Previous Consolidated Fiscal Year Cash Flow Statement (Extract) (from January 1, 2005 to December 31, 2005)
Item	Notes	(¥ thousands)	(¥ thousands)	(¥ thousands)
3 Cash Flows from Investing Activities				
Revenue from short-term loans payable		—	32,002,304	6,800,000
Expenditure incurred on repayment of short-term loans		-500	-9,555,996	-9,935,800
Revenue from long-term loans payable			13,800,000	12,446,300
Expenditure incurred on long-term loans		—	-6,073,500	-7,778,000
Revenue from redemption of debenture				63,128,873
Expenditure incurred on redemption of debenture		—	-31,075,000	-31,475,000
Revenue from issue of new stock for minority shareholders		1,250,037	1,881,735	2,279,947
Income and expenditure on the sale and acquisition of treasury stock		-202,571	22,507	-223,427
Payment of dividends		-180,634	-183,509	-362,399
Payment of dividends to minority shareholders		-68,797	-132,402	-131,722
Cash Flows from Financing Activities		797,533	686,139	34,748,770
4 Effect of exchange rate on cash and equivalents		1,251	2,487	9,630
5 Increase in cash and equivalents		8,096	-88,020	11,866,868
6 Balance of cash and equivalents at the beginning of term		11,319,354	23,202,882	11,319,354
7 Increase in cash and equivalents due to increase in consolidated subsidiaries		—	738,786	16,659
8 Increase in cash and equivalents due to merger		—	77,722	—
9 Balance of cash and equivalents at the end of the interim term		11,327,451	23,931,370	23,202,882