

## Fiscal Year 2016 Third Quarter Consolidated Financial Results (Japanese GAAP)

November 7, 2016

Name of Listed Company: GMO Internet, Inc.

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

Representative: Masatoshi Kumagai, Group CEO and Founder

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

Date of Quarterly Report Release: November 14, 2016 Start Date of Dividend Payout: December 19, 2016

Supplementary documents available pertaining to quarterly financial results: Yes

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

(all amounts rounded down to the nearest million yen)

### 1. Consolidated Third Quarter Financial Results in the Year Ending December 2016 (01.01.2016- 09.30.2016)

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

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to Owners of the Parent	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
Nine months ended								
September 30, 2016	99,884	5.3	12,981	7.5	12,581	5.2	5,950	-30.4
September 30, 2015	94,835	18.7	12,075	41.0	11,955	41.3	8,553	115.3

(Note) Comprehensive Income September 30, 2016: ¥6,943 million (-27.1%), September 30, 2015: ¥9,531 million (58.3%)

	Net Profit per Share	Net Profit per Share (Diluted)
Nine months ended	¥	¥
September 30, 2016	51.17	49.90
September 30, 2015	72.61	71.84

#### (2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio
As of	¥ millions	¥ millions	%
September 30, 2016	555,133	63,979	6.9
Year Ended 12/2015	554,626	62,156	7.1

(Reference) Shareholders' Equity September 30, 2016: ¥38,220 million FYE 12/2015: ¥39,641 million

### 2. Dividends

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

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

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

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

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

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

\*Notes

(1) Changes to significant subsidiaries in the current term (Changes to specified subsidiaries resulting in change in scope of consolidation): yes

New 1 (Company name) GMO FINANCIAL GATE, Inc

Exclusion None

(2) Special accounting treatments used in preparation of financial statements: none

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

1. Changes resulting from revisions to accounting policy: yes

2. Changes other than those specified above: none

3. Changes in accounting estimates: none

4. Restatements: none

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

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

	(Shares)		(Shares)
Q3 FYE 12/2016	115,944,677	FYE 12/2015	117,806,777
Q3 FYE 12/2016	1,811	FYE 12/2015	1,811
Q3 FYE 12/2016	116,288,845	Q3FYE 12/2015	117,804,966

2. Treasury shares at term end

3. Average number of shares in the term

\*Quarterly Results Statement Audit

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

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

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

Results Presentation for Investors and Analysts: November 7, 2016

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

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

Overview of Financial Results in the Nine Months to September 2016

(Unit: ¥millions)

	Previous Q3	Current Q3	Change	% Change
Net Sales	94,835	99,884	5,049	5.3%
Operating Profit	12,075	12,981	905	7.5%
Ordinary Profit	11,955	12,581	626	5.2%
Profit attributable to Owners of the Parent	8,553	5,950	-2,603	-30.4%

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

Amidst a healthy external environment, in the third quarter the Group continued to operate under the continued theme from the previous fiscal year, “strengthening our strengths and enhancing weaker areas with No. 1 products”. (1) The Internet Infrastructure segment, already comprising multiple No. 1 products, invested ¥880 million in promoting C2C handmade market, minne over two consecutive years as aggressive promotions are continued from the previous year with the objective of propelling the service to a strong No. 1 market. (2) The Internet Securities segment continued to expand customer base through a cost leadership strategy. (3) Responding to changes in the market, the Online Advertising & Media segment focused on proprietary product development and sales with the objective of accelerating its shift toward a technology driven business. (4) The Mobile Entertainment segment continued cost control efforts while maintaining the objective of producing a hit title.

Third quarter consolidated net sales increased 5.3% year-on-year to ¥99,884 million, operating profit increased 7.5% to ¥12,981 million, ordinary profit increased 5.2% to ¥12,581 million, and profit attributable to owners of the parent fell 30.4% to ¥5,950 million as net profit for the third quarter of FY2015 was boosted by gain on sale of shares in GMO CLICK Holdings.

Net Sales and Operating Profit by Segment in the Nine Months to September 2016

(Unit: ¥millions)

	Previous Q3	Current Q3	Change	% Change
Internet Infrastructure				
Net Sales	40,512	47,737	7,224	17.8%
Operating Profit	3,350	4,948	1,598	47.7%
Online Advertising & Media				
Net Sales	30,237	33,003	2,766	9.1%
Operating Profit	1,051	1,084	33	3.1%
Internet Securities				
Net Sales	23,042	20,578	-2,464	-10.7%
Operating Profit	7,468	7,372	-95	-1.3%
Mobile Entertainment				
Net Sales	3,318	1,734	-1,583	-47.7%
Operating Profit	-287	-371	-84	-
Incubation				
Net Sales	780	243	-537	-68.8%
Operating Profit	450	-82	-533	-
Other				
Net Sales	6	135	129	-
Operating Profit	-66	-69	-3	-
Adjustment				
Net Sales	-3,062	-3,548	-485	-
Operating Profit	108	99	-9	-
Total				
Net Sales	94,835	99,884	5,049	5.3%
Operating Profit	12,075	12,981	905	7.5%

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

(Unit: ¥millions)

	Previous Q3	Current Q3	Change	% Change
Net Sales	31,263	33,176	1,913	6.1%
Operating Profit	3,584	4,291	706	19.7%
Ordinary Profit	3,585	4,232	647	18.1%
Profit attributable to Owners of the Parent	1,457	2,342	885	60.8%

In the three months to September, the Internet Infrastructure segment performed well amidst an expanding Internet market. Online Advertising & Media segment also performed well with strong sales of proprietary products.

In the Internet Infrastructure segment, profit increased significantly due to an increase in recurring revenue and a temporary factor, but profit in the Internet Security segment decreased due to a decline in FX transaction volume and cover costs hovering at a high level since the Brexit.

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

(Unit: ¥millions)

	Previous Q3	Current Q3	Change	% Change
Internet Infrastructure				
Net Sales	14,141	16,531	2,389	16.9%
Operating Profit	1,005	1,962	956	95.1%
Online Advertising & Media				
Net Sales	9,556	11,134	1,578	16.5%
Operating Profit	267	417	150	56.2%
Internet Securities				
Net Sales	7,681	6,036	-1,645	-21.4%
Operating Profit	2,477	1,975	-501	-20.3%
Mobile Entertainment				
Net Sales	981	472	-509	-51.9%
Operating Profit	-132	-79	53	-
Incubation				
Net Sales	8	210	202	2,326.6%
Operating Profit	-39	3	42	-
Other				
Net Sales	2	51	49	-
Operating Profit	-26	-15	10	-
Adjustment				
Net Sales	-1,109	-1,260	-151	-
Operating Profit	32	27	-4	-
Total				
Net Sales	31,263	33,176	1,913	6.1%
Operating Profit	3,584	4,291	706	19.7%

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

Segment Report

1) Internet Infrastructure

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

i. Domain

As a gateway to the Group's infrastructure segment, the domain business continued to actively grow customer base with a low-pricing strategy. The domain of .shop, launched worldwide in the third quarter of FY 2016, got off to a good start. Domain registration and renewals grew 14.7% to 1.28 million, and total domains under management rose 7.8% to 5.75 million. Net sales grew 37.2% year-on-year to ¥2,045 million partly due to consolidation of GMO Brights Consulting Inc. in the fourth quarter of FY2015.

ii. Hosting & Cloud

The hosting & cloud business has responded to growing sophistication and diversification of client

needs through cloud-based, dedicated, shared and VPS offerings under a multi-brand strategy. In the external environment we saw rising demand for cloud hosting services over traditional hosting. GMO AppsCloud, a cloud based hosting solution optimized for mobile game developers and operators grew along with general cloud hosting services.

As a result, web hosting contracts increased 1.8% year-on-year to 777 thousand and net sales decreased 0.4% year-on-year to ¥3,451 million.

### iii. Ecommerce solutions

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

As a result, the number of paid stores increased 3.2% year-on-year to 75 thousand and total transaction volume rose 7.4% to ¥63.2 billion, while in minne, transaction volume rose 67.3% to ¥2.06 billion. Ecommerce solutions reported net sales of ¥2,021 million (23.6% year-on-year increase).

### iv. Security

With the global expansion of security brand "GlobalSign" operated by GMO GlobalSign K.K., a consolidated subsidiary of GMO CLOUD K.K., direct sales targeting large corporations and active sales partners drove market share growth both in Japan and overseas. In the current quarter, Security reported net sales of ¥1,378 million (33.6% year-on-year increase), partly due to a temporary factor related to major customers, with overseas sales ratio exceeding 70%.

### v. Payment

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

As a result, at the end of the third quarter, the number of merchants increased 24.9% year-on-year to 74.0 thousand and transaction volume grew 25.4% year-on-year to ¥518 billion. Continued growth of payment services as well as the money services business contributed to net sales growth of 26.3% year-on-year to ¥3,184 million.

### vi. Provider

This sub-segment operates Internet Provider Services for consumers. Under the favorable external environment with the penetration of mobile internet, number of mobile wifi users grew 9.9% to 382 thousand as a result of recent cost effective web marketing. Net sales grew 27.1% year-on-year to ¥3,497 million.

As a result of the expansion of customer base in each of the key Internet Infrastructure businesses in the period under review and overall net sales increased 16.9% year-on-year to ¥16,531 million.

Operating profit increased 95.1% year-on-year to ¥1,962 million due mainly to an increase in recurring revenue and a temporary factor related to major customers in Security business (¥230 million), even with ¥180 million of investment in the promotion of C2C handmade market, minne.

## 2) Online Advertising & Media

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

#### i. Online Advertising

This sub-segment provides comprehensive online advertising services including advertisement agency and ad platform provision services. Trends in the online advertising market include a shift from managed advertising placement toward listing and other ad network products using ad technology.

In the third quarter, sales of proprietary products such as ad network for smartphones “AkaNe” and recommendation widget “TAXEL” showed a steady growth.

As a result, net sales in online advertising increased 21.8% to ¥6,806 million.

#### ii. Internet Media

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

As a result, net sales in this sub-segment increased 11.3% year-on-year to ¥3,633 million.

Overall, in the Online Advertising & Media segment, net sales totaled ¥11,134 million (16.5% year-on-year increase). Operating profit increased 56.2% year-on-year to ¥417 million. The segment will continue focus on development and sale of proprietary products.

#### 3) Internet Securities

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

In the current quarter, number of FX accounts grew 7.5% year-on-year to 624 thousand, while number of Securities accounts grew 12.4% year-on-year to 297 thousand. Sales from over-the-counter FX transactions which account for majority of sales and profit of the segment decreased due to a decline in FX transaction volume and cover costs hovering at a high level since the Brexit.

Overall, net sales in the Internet Securities segment totaled ¥6,036 million (21.4% year-on-year decrease) and operating profit was ¥1,975 million (20.3% year-on-year decrease).

#### 4) Mobile Entertainment

This segment comprises smartphone and online game development and operations. In the third quarter, sales from our existing titles including “Minerva Knights” continued on a downward trend partly because it has been a while since their launch.

As a result, in the Mobile Entertainment segment, net sales fell 51.9% to ¥472 million, and operating loss was ¥79 million (¥132 million of operating loss in the third quarter of FY2015). We will continue our efforts to create hit titles through cost control, internalization of all operations and development, and accumulation of operation know-how.

#### 5) Incubation Segment

The Incubation segment invests in expanding business and building enterprise value in Internet-related companies. In the current quarter, revenue was ¥210 million and operating profit was ¥3 million (¥39 million of operating loss reported in the third quarter of FY2015).



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

(Unit: ¥millions)

	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Net Sales	31,263	31,502	33,173	33,533	33,176
Operating Profit	3,584	2,728	3,657	5,032	4,291
Ordinary Profit	3,585	2,901	3,552	4,796	4,232
Profit attributable to Owners of the Parent	1,457	4,865	1,361	2,246	2,342
Total Assets	547,192	554,626	560,766	522,346	555,133
Shareholders' Equity	35,682	39,641	36,138	37,295	38,220

(Reference2)

Table: Quarterly Results by Segment

## I Net Sales by Segment

(Unit: ¥millions)

	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Internet Infrastructure					
Provider	2,751	2,941	3,057	3,272	3,497
Domain	1,490	1,727	1,939	1,949	2,045
Hosting & Cloud	3,465	3,539	3,430	3,445	3,451
Ecommerce Solutions	1,635	1,887	1,883	1,973	2,021
Security	1,031	1,174	1,140	1,127	1,378
Payment	2,521	2,649	2,908	2,983	3,184
Other	1,246	979	962	1,131	952
Total	14,141	14,899	15,323	15,882	16,531
Online Advertising & Media					
Online Advertising	5,587	6,237	6,865	6,112	6,806
Internet Media	3,263	3,427	3,883	3,540	3,633
Internet Research & Other	705	669	754	711	695
Total	9,556	10,333	11,504	10,363	11,134
Internet Securities					
Total	7,681	6,762	6,734	7,808	6,036
Mobile Entertainment					
Total	981	780	690	572	472
Incubation					
Total	8	12	5	27	210
Sub total	32,370	32,788	34,256	34,654	34,385
Other	2	1	39	44	51
Adjustment	-1,109	-1,288	-1,122	-1,165	-1,260
Net Sales	31,263	31,502	33,173	33,533	33,176

## II Operating Profit by Segment

	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Internet Infrastructure	1,005	961	1,390	1,595	1,962
Online Advertising & Media	267	151	449	216	417
Internet Securities	2,477	2,198	2,079	3,318	1,975
Mobile Entertainment	-132	-467	-222	-69	-79
Incubation	-39	-118	-49	-35	3
Sub total	3,578	2,724	3,647	5,025	4,279
Other	-26	-25	-32	-21	-15
Adjustment	32	28	43	28	27
Operating Profit	3,584	2,728	3,657	5,032	4,291

(Reference3)

Description of businesses in each segment

Business Segment		Main Operations
Internet Infrastructure	Domain	<ul style="list-style-type: none"> <li>• Domain registry services: ".shop"" .tokyo"</li> <li>• Domain registration services :Onamae.com, MuuMuu Domain, VALUE-DOMAIN.</li> </ul>
	Hosting & Cloud	<ul style="list-style-type: none"> <li>• Provision, operation, management, and maintenance of dedicated, shared, VPS and cloud-based web hosting services including Onamae.com Rental Server, GMO AppsCloud, ConoHa by GMO, GMO Cloud VPS, GMO Cloud Altus, GMO Cloud Private, Lolipop, heteml, Sqale and 30days Album</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 online shopping mall Calamel etc.</li> <li>• Operation of handmade marketplace, minne, tetote</li> <li>• Operation of ecommerce/O2O support services</li> <li>• Web design, operational support and system consulting</li> </ul>
	Security	<ul style="list-style-type: none"> <li>• DomainSSL, OrganizationSSL, 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>• GMO Payment Gateway services including PG Multi-Payment Service and payment processing services for the public sector</li> </ul>
	Provider	<ul style="list-style-type: none"> <li>• GMO TokuToku BB, interQ MEMBERS, ZERO, and other Internet provider services.</li> </ul>
Online Advertising & Media	Online Advertising	<ul style="list-style-type: none"> <li>• Listing and mobile (GMO SmaAD) ad networks, search engine advertising, affiliate advertising, reward advertising</li> <li>• Advertising planning and production</li> </ul>
	Internet Media	<ul style="list-style-type: none"> <li>• Development and operation of blog services yaplog! and JUGEM, Internet community services including freeml, point rewards service, PointTown, and group discount website, Kumapon. Development and operation of smartphone apps including fashion sharing app, Coordisnap. Ad distribution to own media.</li> <li>• SEM Media: Operation and sales of Japanese keywords, JWord, and 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 (GMO Research Cloud Panel)</li> </ul>
Internet Securities	Internet Securities	<ul style="list-style-type: none"> <li>• Operation of online securities trading, FX trading services etc.</li> </ul>
Mobile Entertainment	Mobile Entertainment	<ul style="list-style-type: none"> <li>• Smartphone game development, operation &amp; support</li> <li>• Online game development and operation</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

At the end of the third quarter of FY2016 (September 30, 2016), assets increased ¥507 million (0.1%) from the end of the previous fiscal year to ¥555,133 million. Significant factors included an increase in intangible fixed assets (other) mostly due to the acquisition of the rights to operate the .shop domain and a decrease in assets in the Securities segment of ¥38,196 million (9.0%) due to fluctuations in customer assets (deposits, margin transaction assets, short-term security deposits, and variation margin paid).

Liabilities

At the end of the third quarter, liabilities decreased ¥1,315 million (0.3%) from the end of the previous fiscal year to ¥491,154 million. Fluctuations in liabilities are chiefly attributable to an increase in interest bearing debt of ¥45,558 million (114.4%) and fluctuations in customer assets (deposits received, margin transaction liabilities, security deposits, and variation margin received) in the Securities segment, resulting in a decrease in liabilities of ¥44,827 million (11.8%).

Net Assets

At the end of the third quarter, net assets increased ¥1,822 million (2.9%) from the end of the previous fiscal year to ¥63,979 million. Movements in net assets included a decrease of ¥3,289 million (85.7%) in capital surplus following the retirement of treasury shares, an increase of ¥2,548 million (8.4%) in earned surplus (profit attributable to owners of the parent totaling ¥5,950 million and dividend payments of ¥3,515 million), and an increase of ¥3,219 million (14.3%) in non-controlling minority equity due to a growth of consolidated subsidiaries.

Cash Flow

At the end of the third quarter of FY2016 (September 30, 2016), cash and equivalents increased ¥19,564 million (26.1 %) from the end of the previous fiscal year to ¥94,493 million. The following is a summary of cash flow activity in the period under review.

Cash Flow from Operating Activities

Outflow in operating activities was ¥9,475 million (outflow of ¥33,942 million in the previous corresponding term). Major items included net profit before adjustment for tax etc. (¥13,107 million), depreciation (¥3,192 million), an increase in assets of the Internet Securities segment due to an increase in customer assets (¥6,631 million), corporate tax payments (¥7,755 million), a decrease in trade payables (¥3,227 million), deposits received (¥2,554 million) and amount payables (¥1,305 million).

Cash Flow from Investing Activities

Outflow from investing activities totaled ¥9,276 million (inflow of ¥5,885 million in the previous corresponding term). Contributing factors chiefly included cash inflow from a net decrease in term deposit (¥899 million), and cash outflow from acquisition of tangible fixed assets such as servers (¥1,111 million), acquisition of intangible fixed assets including rights to operate the .shop domain (¥6,566 million), acquisition of investment securities (¥3,619 million), and acquisition of subsidiaries' shares (¥838 million).

Cash Flow from Financing Activities

Inflow from financing activities totaled ¥39,263 million (inflow of ¥28,669 million in the previous corresponding term). Significant items include cash outflow from dividend payments (¥3,518 million), acquisition of treasury shares (¥2,236 million), and cash inflow from changes in interest bearing debt for the purpose of improving short-term liquidity (¥45,495 million).

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

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

## 2. Summary of Information Related to Notes

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

GMO FINANCIAL GATE, Inc., which was accounted for by using the equity method until the second quarter of FY2016, became a consolidated subsidiary from the third quarter of FY2016 as a result of additional acquisition of shares.

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

None

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

#### Application of Standards relating to Business Combinations

In the first quarter of FY2016, the following accounting standards were applied: Accounting Standards related to Business Combinations (Accounting Standard No. 21, 9/13/2013, hereafter "Business Combination Accounting Standards"), Accounting Standards related to Consolidated Financial Reporting (Accounting Standard No. 22, 9/13/2013, hereafter "Consolidation Accounting Standards"), and Accounting Standards related to Business Divisions (Accounting Standard No. 7, 9/13/2013, hereafter "Business Division Accounting Standards"). Changes in the company's equity method interests in subsidiaries where the company maintains a controlling share is reported as Capital Stock, and the method of reporting expenses in the consolidated fiscal years in which acquisition related expenses occur has also been revised. Further, in regard to business combinations that occurred after the beginning of the first quarter, due to provisional accounting treatment being permanently adopted, there was a change in distributed costs related to acquisition costs reflected in the financial statements of the consolidated fiscal term in which the business combination occurred. In addition, there was a change in presentation of net profit, and the line item previously reported as minority equity is now presented as non-controlling minority equity. In order to reflect these changes, the current and previous fiscal years are presented using the new standards.

In the calculation of cash flow in the third quarter of the current fiscal year, cash flow related to the acquisition or sale of subsidiary stock that does not result in a change in the scope of consolidation is reported as Cash Flow from Financing Activities. Acquisition expenses for subsidiary stock that does result in a change in scope of consolidation and expenses relating to the sale or acquisition of subsidiary stock that does not result in a change in the scope of consolidation are reported as Cash Flow from Operating Activities.

Business Combination Accounting Standard, etc., have been applied from the first quarter of the current fiscal year prospectively in accordance with the transitional handling as defined in Business Combination Accounting Standard No. 58-2 (4), Consolidation Accounting Standard 44-5 (4) and Business Division Accounting Standard 57-4 (4)

As a result, Capital surplus as of September 30, 2016 decreased by ¥1,056 million. The impact of these changes on consolidated earnings for the third quarter FY2016 is insignificant.

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

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

The impact of this change on consolidated earnings for the third quarter of FY2016 is insignificant.

### 3. Quarterly Consolidated Financial Statements

#### (1) Quarterly Consolidated Balance Sheet

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2015)	3rd Quarter Current Fiscal Year (As of Sep 30, 2016)
<b>Assets</b>		
Current Assets		
Cash and deposits	75,979	94,641
Trade notes and accounts receivable	12,528	14,138
Operational investment securities	2,236	2,802
Securities segment deposits	254,894	233,591
Securities segment margin transaction assets	98,229	78,085
Securities segment short term guarantee deposits	45,547	42,514
Securities segment variation margin paid	24,390	30,675
Deferred tax asset	1,621	1,859
Other	16,767	24,255
Provision for doubtful debts	-848	-906
<b>Total Current Assets</b>	<b>531,347</b>	<b>521,657</b>
Fixed Assets		
Tangible fixed assets	6,592	7,200
Intangible fixed assets		
Goodwill	2,224	3,672
Software	4,657	4,931
Other	1,318	6,565
<b>Total intangible fixed assets</b>	<b>8,200</b>	<b>15,169</b>
Investments and other assets		
Investment securities	4,329	7,282
Deferred tax asset	1,448	1,288
Other	3,079	2,876
Provision for doubtful debts	-371	-342
<b>Total investments and other assets</b>	<b>8,486</b>	<b>11,106</b>
<b>Total Fixed Assets</b>	<b>23,278</b>	<b>33,475</b>
<b>Total Assets</b>	<b>554,626</b>	<b>555,133</b>

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2015)	3rd Quarter Current Fiscal Year (As of Sep 30, 2016)
<b>Liabilities</b>		
Current Liabilities		
Trade notes and accounts payable	5,304	6,919
Short term debt	34,529	76,675
Bonds to be redeemed within one-year	2,600	-
Amount payable	12,043	10,811
Securities segment deposits received	31,562	30,175
Securities segment margin transaction liability	71,590	43,430
Securities segment guarantees received	273,518	261,014
Securities segment variation margin received	4,083	1,307
Accrued corporate tax etc.	5,849	3,438
Allowance for bonuses	673	1,030
Allowance for bonuses to directors	814	194
Advance payment received	5,221	6,017
Deposits received	29,704	28,132
Other	6,745	6,535
<b>Total Current Liabilities</b>	<b>484,240</b>	<b>475,683</b>
Fixed Liabilities		
Long term debt	2,698	8,711
Deferred tax liability	56	46
Other	3,091	4,445
<b>Total Fixed Liabilities</b>	<b>5,846</b>	<b>13,203</b>
Statutory Reserve		
Financial instruments transaction liability reserve	2,382	2,267
<b>Total Statutory Reserve</b>	<b>2,382</b>	<b>2,267</b>
<b>Total Liabilities</b>	<b>492,469</b>	<b>491,154</b>
<b>Net Assets</b>		
Shareholders' Equity		
Capital stock	5,000	5,000
Capital surplus	3,836	547
Earned surplus	30,189	32,737
Treasury stock	-0	-2
<b>Total Shareholders' Equity</b>	<b>39,024</b>	<b>38,282</b>
Other Comprehensive Income		
Other securities valuation differences	217	75
Hedging profit/loss carried forward	13	-59
Foreign currency translation account	385	-77
<b>Total Other Comprehensive Income</b>	<b>617</b>	<b>-62</b>
Equity Warrants	49	74
Non-controlling Minority Equity	22,465	25,684
<b>Total Net Assets</b>	<b>62,156</b>	<b>63,979</b>
<b>Liabilities, Net Assets Total</b>	<b>554,626</b>	<b>555,133</b>

## (2) Quarterly Consolidated Statement of Income and Comprehensive Income

Quarterly Consolidated Statement of Income  
3rd Quarter

(Unit: ¥millions)

	3rd Quarter Previous Fiscal Year (9 months to Sep, 2015)	3rd Quarter Current Fiscal Year (9 months to Sep, 2016)
Net Sales	94,835	99,884
Cost of Sales	44,500	49,232
Gross Profit on Sales	50,334	50,651
Sales, General & Administrative Expenses	38,258	37,670
Operating Profit	12,075	12,981
Non Operating Revenue		
Dividend income	35	60
Gain on currency translation	80	-
Equity method investment profits	29	-
Other	215	204
Total Non Operating Revenue	360	265
Non Operating Expenses		
Interest paid	147	88
Commissions paid	143	106
Equity method investment losses	-	24
Loss on currency translation	-	342
Other	189	104
Total Non Operating Expenses	480	664
Ordinary Profit	11,955	12,581
Extraordinary Profit		
Gain on sale of investment securities	163	194
Gain on sale of stock in affiliates	4,786	105
Gains on step acquisitions	-	395
Reversal of reserve for securities transaction liability	-	115
Other	655	9
Total Extraordinary Profit	5,606	819
Extraordinary Loss		
Impairment loss	624	240
Provision to securities transaction liability reserve	321	-
Other	285	53
Total Extraordinary Loss	1,231	294
Net Profit before Adjustment for Tax etc.	16,330	13,107
Corporate, Municipal and Enterprise Taxes	6,633	4,757
Corporate Tax etc. Adjustment	-109	14
Total Corporate Taxes etc.	6,523	4,772
Net Profit	9,807	8,334
Profit attributable to Non-controlling Interests	1,253	2,383
Profit attributable to Owners of the Parent	8,553	5,950

Quarterly Consolidated Statement of Comprehensive Income

(Unit: ¥millions)

	3rd Quarter Previous Fiscal Year (9 months to Sep, 2015)	3rd Quarter Current Fiscal Year (9 months to Sep, 2016)
Net Profit	9,807	8,334
Other Comprehensive Income		
Other securities valuation differences	-99	-390
Hedging profit/loss carried forward	18	-73
Currency translation adjustment account	-195	-926
Total other comprehensive income	-276	-1,390
Comprehensive Income	9,531	6,943
(Breakdown)		
Comprehensive income attributable to owners of the parent	8,305	5,271
Comprehensive income attributable to non-controlling interests	1,226	1,672



## (3) Quarterly Consolidated Statement of Cash Flows

(Unit: ¥millions)

	3rd Quarter Previous Fiscal Year (9 months to Sep, 2015)	3rd Quarter Current Fiscal Year (9 months to Sep, 2016)
<b>Cash Flow from Operating Activities</b>		
Net profit before adjustment for tax etc.	16,330	13,107
Depreciation expenses	3,250	3,192
Impairment loss	624	240
Amortization of goodwill	1,249	584
Interest paid	147	88
Gain on sale of investment securities	-163	-194
Gain on sale of stock in affiliates (-represents increase)	-4,677	-105
Change in accounts receivable (-represents increase)	-719	-33
Change in purchase debts (- represents decrease)	-1,466	-3,227
Change in amount payable (- represents decrease)	-515	-1,305
Change in deposits received (- represents decrease)	309	-2,554
Change in deposits in securities segment (- represents increase)	-25,983	21,303
Change in short term guarantee deposits in securities segment (-represents increase)	-14,809	3,033
Change in margin variation paid and received in securities segment	-17,460	-9,060
Changes in deposits and guarantees received in securities segment (- represents decrease)	26,105	-13,891
Changes in margin transaction assets and liabilities	-9,669	-8,015
Other	-3,675	-4,636
Sub total	-31,125	-1,475
Interest and dividends received	86	95
Interest paid	-381	-339
Corporate tax etc. paid	-2,522	-7,755
<b>Cash Flow from Operating Activities</b>	<b>-33,942</b>	<b>-9,475</b>
<b>Cash Flow from Investing Activities</b>		
Expenditure on payment of fixed term deposit	-160	-0
Return of fixed term deposit	3,613	900
Expenditure on acquisition of tangible fixed assets	-758	-1,111
Expenditure on acquisition of intangible fixed assets	-1,621	-6,566
Expenditure on acquisition of investment securities	-906	-3,619
Income accrued on the sale of investment securities	214	202
Income from sale of shares in affiliated company	5,770	-
Expenditure on the acquisition of subsidiary stock resulting in change in scope of consolidation	-285	-1,191
Proceeds from acquisition of subsidiaries resulting in change in scope of consolidation	-	1,074
Income from the sale of subsidiary stock resulting in change in scope of consolidation	272	804
Other	-252	231
<b>Cash Flow from Investing Activities</b>	<b>5,885</b>	<b>-9,276</b>

(Unit: ¥millions)

	3rd Quarter Previous Fiscal Year (9 months to Sep, 2015)	3rd Quarter Current Fiscal Year (9 months to Sep,2016)
<b>Cash Flow from Financing Activities</b>		
Income accrued on short term loans	195,998	285,148
Expenditure on repayment of short term loans	-162,309	-245,048
Income accrued on long term loans	2,000	8,500
Expenditure on repayment of long term loans	-9,612	-505
Income from issuing bonds	2,600	-
Redemption of bonds	-	-2,600
Payment received from partners in investment funds	550	880
Returns to partners in investment funds	-1,077	-21
Proceeds from share issuance to non-controlling interests	4,183	235
Acquisition of treasury stock	-	-2,236
Payment of dividends	-1,889	-3,518
Payment of dividends to non-controlling interests	-447	-659
Purchases of shares in subsidiaries without a change in the scope of consolidation	-	-1,119
Repayments of installment payable	-	-182
Gain on sale and leasebacks	-	1,850
Other	-1,326	-1,460
<b>Cash Flow from Financing Activities</b>	<b>28,669</b>	<b>39,263</b>
Currency Translation Adjustment on Cash and Equivalents	-113	-946
<b>Change in Cash and Equivalents (- represents decrease)</b>	<b>499</b>	<b>19,564</b>
Balance of Cash and Equivalents at Beginning of Term	65,038	74,929
<b>Increase in Cash and Equivalents following Increase in Consolidation</b>	<b>303</b>	<b>-</b>
<b>Balance of Cash and Equivalents at End of Term</b>	<b>65,841</b>	<b>94,493</b>

(4) Notes regarding the Quarterly Consolidated Financial Statements  
 Notes regarding the going concern assumption  
 None

Notes regarding significant changes impacting shareholders' equity

Acquisition and retirement of treasury stock

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

As a result, at the end of the third quarter of FY2016, capital surplus decreased ¥2,233 million and treasury stock increased by ¥1 million.

Segment Data

I 3rd Quarter of Previous Fiscal Year (01.01.2015-09.30.2015)

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

(Unit: ¥millions)

	Reportable Segment						Other (*i)	Adjustment (*ii)	Consolidated P/L (*iii)
	Internet Infrastructure	Online Ad & Media	Internet Securities	Mobile Entertainment	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	39,926	27,788	23,042	3,290	780	94,829	6	—	94,835
Internal transactions	586	2,448	0	27	—	3,062	—	-3,062	—
Total	40,512	30,237	23,042	3,318	780	97,891	6	-3,062	94,835
Segment Profit/Loss	3,350	1,051	7,468	-287	450	12,033	-66	108	12,075

\*Notes

- i. The Other item represents culture incubation and other businesses not included in reportable segments
- ii. The segment profit or loss adjustment (¥108 million) is an adjustment for internal segment transactions
- iii. Segment profit is based on the Operating Profit (or Loss) line item in the consolidated Statement of Income

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

(Significant impairment losses related to fixed assets)

Impairment loss on fixed assets was reported in the Mobile Entertainment segment, Internet Infrastructure, and Online Advertising & Media segments. The amount of impairment loss in each segment in the third quarter was as follows: Mobile Entertainment: ¥385 million, Internet Infrastructure: ¥147 million, Online Advertising & Media: ¥91 million.

II 3rd Quarter of Current Fiscal Year (01.01.2016-09.30.2016)

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

(Unit: ¥millions)

	Reportable Segment						Other (*i)	Adjustment (*ii)	Consolidated P/L (*iii)
	Internet Infrastructure	Online Ad & Media	Internet Securities	Mobile Entertainment	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	47,223	30,039	20,577	1,665	243	99,748	135	—	99,884
Internal transactions	514	2,963	0	69	—	3,548	—	-3,548	—
Total	47,737	33,003	20,578	1,734	243	103,297	135	-3,548	99,884
Segment Profit/Loss	4,948	1,084	7,372	-371	-82	12,951	-69	99	12,981

\*Notes

- i. The Other item represents culture incubation and other businesses not included in reportable segments
- ii. The segment profit or loss adjustment (¥99 million) is an adjustment for internal segment transactions.
- iii. Segment profit is based on the Operating Profit (or Loss) line item in the consolidated Statement of Income.

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

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

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

(Significant impairment losses related to fixed assets)

Impairment loss on fixed assets was reported in the Mobile Entertainment segment. The amount of impairment loss reported at the end of the third quarter was as follows; Mobile Entertainment: ¥188 million.

(Significant change in goodwill)

In Internet Infrastructure segment, goodwill increased by ¥2,584 million as a result of consolidation of 20 companies, including MACRO KIOSK Berhad, through acquisition of their shares. The amount of goodwill is based on preliminary calculation as the allocation of the acquisition cost is not complete. Goodwill decreased by ¥701 million as GMO GlobalSign Oy was excluded from consolidation as a result of sale of its shares.