

Fiscal Year 2018 First Quarter Consolidated Financial Results (Japanese GAAP)

May 10, 2018

Name of Listed Company: GMO Internet, Inc.

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

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Date of Quarterly Report Release: May 15, 2018 Start Date of Dividend Payout: June 22, 2018

Supplementary documents available pertaining to quarterly financial results: Yes

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

(all amounts rounded down to the nearest million yen)

1. First Quarter Financial Results in the Year Ending December 2018 (01.01.2018- 03.31.2018)

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

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to Owners of the Parent	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
Three months ended								
March 31,2018	43,705	21.3	5,269	49.0	4,931	46.2	2,087	81.3
March 31,2017	36,040	8.6	3,537	-3.3	3,372	-5.1	1,151	-15.4

(Note) Comprehensive Income: March 31,2018: ¥2,662 million (43.1%), March 31, 2017: ¥1,860 million (21.3%)

	Net Profit per Share	Net Profit per Share (Diluted)
Three months ended	¥	¥
March 31,2018	18.14	17.96
March 31,2017	9.93	9.69

(2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio
As of	¥ millions	¥ millions	%
March 31,2018	758,529	75,280	5.9
December 31,2017	749,160	74,354	5.8

(Reference) Shareholders' Equity: March 31, 2018: ¥44,891million; December 31,2017:¥43,697 million

(Note) Effective January 1, 2018, the Company applied "Tentative Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act" (Practical Issues Task Force No. 38, March 14, 2018) and also applied it to the consolidated financial statements for the year ended December 31, 2017, retrospectively. See "3. Quarterly Consolidated Financial Statements and Major Notes (4) Notes regarding the quarterly consolidated financial statements (Changes in accounting policies)" on page 16 of the accompanying documents for details.

2. Dividends

	Dividends per Share				
	End of Q1	End of Q2	End of Q3	End of Term	Total
	¥	¥	¥	¥	¥
Year Ended 12/2017	5.00	6.00	6.00	6.00	23.00
Year Ending 12/2018	6.00				
Year Ending 12/2018 (forecast)		—	—	—	—

3. Consolidated Results Forecast for the Year Ending December 31, 2018 (01.01.2018 – 12.31.2018)

As the Group's business "Internet Finance business" and "Cryptocurrency business" are affected by economic conditions, financial markets, cryptocurrency and other market conditions, it is difficult to forecast business performance, and therefore we do not disclose consolidated business results and dividend forecast. In order to compensate for this point, we disclose the hash rate of the Cryptocurrency Mining business which has a material impact on the business performance on a monthly basis. GMO Financial Holdings Co., Ltd., our subsidiary, also discloses sales indicators, such as foreign exchange margin transaction volume, stock brokerage trading price and the number of customer account, and operating revenue on a monthly basis.

*Notes

(1) Changes to significant subsidiaries in the current term: None

(2) Special accounting treatments used in preparation of the quarterly financial statements: None

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

1. Changes resulting from revisions to accounting standard, etc.: None
2. Changes other than those specified above: Yes
3. Changes in accounting estimates: None
4. Restatements: None

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

1. Outstanding shares at term end (inc. treasury)
2. Treasury shares at term end
3. Average number of shares during the period

Q1 FYE 12/2018	115,096,887	FYE 12/2017	115,096,887
Q1 FYE 12/2018	8,322	FYE 12/2017	11,347
Q1 FYE 12/2018	115,086,683	Q1 FYE 12/2017	115,942,866

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

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

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

On May 10, 2018, we plan to hold a financial results briefing for institutional investors and analysts. The presentation and explanation (voice) along with explanatory materials used on the day will be posted on our company website (<http://ir.gmo.jp/en/>) promptly after the meeting.

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1. Qualitative Information related to Financial Results

(1) Consolidated Operating Results

Effective January 1, 2018, the Company changed its reportable segments. Firstly, (1) following the new entry into the cryptocurrency mining business in the year ended December 31, 2017 and an increase in materiality of the cryptocurrency exchange business offered by GMO Coin with a surge in the transaction volume, "Cryptocurrency" segment was newly added to our reportable segments. As a result, the cryptocurrency exchange business previously included in "Internet Finance" was transferred to "Cryptocurrency" segment. And (2) "Mobile Entertainment" segment is now included in "Other." Figures for the year ended December 31, 2017 were reclassified and presented under the new reportable segments.

◆ Overview of Financial Results for the Three Months Ended March 31, 2018

	Previous Q1	Current Q1	Change	% Change
Net Sales	36,040	43,705	7,664	21.3%
Operating Profit	3,537	5,269	1,731	49.0%
Ordinary Profit	3,372	4,931	1,558	46.2%
Profit Attributable to Owners of the Parent	1,151	2,087	936	81.3%

(Unit: ¥millions)

Under the corporate slogan "Internet for Everyone" GMO Internet Group focuses resources on high growth Internet markets. Continued high growth in the Internet market is spurred by changes in external environment including increased usage and diversification of smartphones and other mobile devices, the proliferation of social media, and the progression of cloud technology. The emergence of new movements such as B2B, C2C, O2O and IoT are also contributing to the expansion of the market itself. The transaction volume in the cryptocurrency business increased significantly partly due to the enforcement of the amended Payment Services Act. GMO Internet management views any growth in the volume of information available on the Internet or in the volume of transactions conducted over the Internet as an opportunity to grow profits as a group that provides Internet and service infrastructure.

Amidst such a healthy business environment, (1) the Internet Infrastructure segment, already comprising multiple No. 1 products, reported record high sales supported by strong performance in all businesses in the segments including Payment, Security, and Provider. (2) The Online Advertising & Media segment has focused on function enhancement and development of proprietary products with the objective of responding to a technological shift in the online advertising market. (3) The Internet Finance segment improved its profitability of over-the-counter FX transactions and secured favorable growth in sales of various products. (4) In the Cryptocurrency segment, (i) Cryptocurrency mining business recorded a profit as mining progressed as planned, but (ii) Cryptocurrency exchange business recorded a loss due mostly to a large loss on valuation of proprietary positions in January. But it achieved positive figures in March as a result of implementing measures to control positions.

For the three months ended March 31, 2018, the Company recorded net sales of ¥43,705 million (up 21.3% year-on-year), operating profit of ¥5,269 million (up 49.0% year-on-year), ordinary profit of ¥4,931 million (up 46.2% year-on-year) and net profit attributable to owners of the parent of ¥2,087 million (up 81.3% year-on-year).

Net Sales and Operating Profit by Segment for the Three Months Ended March 31, 2018

(Unit: ¥millions)

	Previous Q1	Current Q1	Change	% Change
Internet Infrastructure				
Net Sales	19,727	23,390	3,662	18.6%
Operating Profit	2,151	2,587	435	20.2%
Online Advertising & Media				
Net Sales	11,572	12,267	694	6.0%
Operating Profit	255	311	55	21.8%
Internet Finance				
Net Sales	5,578	8,151	2,573	46.1%
Operating Profit	1,237	3,303	2,066	167.0%
Cryptocurrency				
Net Sales	—	635	635	—
Operating Profit	-15	-735	-719	—
Incubation				
Net Sales	70	180	110	156.3%
Operating Profit	-5	-54	-48	—
Other				
Net Sales	351	139	-211	-60.4%
Operating Profit	-106	-159	-53	—
Adjustment				
Net Sales	-1,260	-1,059	201	—
Operating Profit	20	16	-4	—
Total				
Net Sales	36,040	43,705	7,664	21.3%
Operating Profit	3,537	5,269	1,731	49.0%

Segments results for the three months ended March 31, 2018 are as follows.

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, ecommerce solutions, payment and security - the five major businesses in this segment – are all developed and offered in-house and each holds top share in their respective markets in Japan. In addition, the segment includes consumer Internet provider services. The following is a breakdown of results in each of the businesses comprising this segment.

i. Domain

Gateway to the Group's infrastructure segment, the domain business has continued to actively grow customer base with a low-pricing strategy. The number of domain registration and renewals during the three months ended March 31, 2018 was 1.23 million (down 2.9% year-on-year), and total number of domains under management as of March 31, 2018 was 6.06 million (up 0.8% year-on-year). Net sales were ¥2,104 million (up 5.4% year-on-year).

ii. Hosting & Cloud

The hosting & cloud business responds to growing diversification of client needs through cloud-based, dedicated, shared and VPS offerings under a multi-brand strategy. The number of web hosting contracts as of March 31, 2018 was 809 thousand (up 2.3% year-on-year) and net sales were ¥3,527 million (down 0.1% year-on-year).

iii. Ecommerce solutions

Ecommerce solutions comprises SaaS based services for online stores, and C2C handmade market, minne, and O2O support service. In the tailwind of expansion of the market, the segment has provided support to EC business operators including the improvement of cart system features and ongoing industry seminars, events and other initiatives. In order to make minne an overwhelmingly No.1 service, we have held offline events, strengthened smartphone app features, and enhanced payment services in addition to investment in promotion.

As a result, the number of paid stores as of March 31, 2018 was 74 thousand (down 1.7% year-on-year), and total transaction volume was ¥69.6 billion (up 6.7% year-on-year). For minne, total transaction volume was ¥2.9 billion (up 20.9% year-on-year) and net sales were ¥2,379 million (up 10.9% year-on-year).

iv. Security

As the global expansion of security brand GlobalSign progressed, direct sales targeting large corporations and active sales partners drove market share growth both in Japan and globally. Security reported net sales of ¥1,423 million (up 11.1% year-on-year), with overseas sales ratio of approximately 70%.

v. Payment

Payment services are mainly operated by GMO Payment Gateway and offer credit card settlement agency service. The market environment is favorable, and we will continue to expand and progress into new fields beyond online sales. During the three months ended March 31, 2018, attention was paid to the increase in the number of transactions and the transaction volume, with the expansion of money service business such as early payment services, transaction lending and payment after delivery services with the objective of supporting customers (merchants) in expanding sales.

As a result of these efforts, the number of transactions and the transaction volume increased, and net sales increased significantly to ¥6,748 million (up 21.9% year-on-year).

vi. Provider

This sub-segment operates Internet provider services for consumers. Under the current favorable external environment with the penetration of the mobile internet usage, and also due to the expansion of sales channel, the number of subscriptions at March 31, 2018 was 1,065 thousand (up 52.9% year-on-year) and net sales amounted to ¥5,586 million (up 40.8% year-on-year).

The market share expanded in each of the key Internet Infrastructure businesses, and overall net sales amounted to ¥23,390 million (up 18.6% year-on-year). Operating profit showed a favorable growth and amounted to ¥2,587 million (up 20.2% year-on-year) due mainly to growth in highly profitable products in Payment and Security business.

2) Online Advertising & Media

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

i. Online Advertising

This sub-segment provides comprehensive Internet advertising services such as advertising agency and ad platform. In this market, the shift from net advertising, which is a selling of funds, to operational advertising via ad technology continues. Partly as a result of our efforts towards technological shift, in-house products such as AkaNe for advertisement for smartphones and TAXEL for recommendation widgets as well as operational advertising showed favorable growth, resulting in net sales of ¥8,339 million (up 13.1% year-on-year).

ii. Internet Media

This sub-segment provides advertising space within our own smartphone and PC content and marketing support services. Net sales were ¥3,152 million (down 6.7% year-on-year) due mainly to a decrease in banner advertisement as a consequence of the change in regulations for ad network advertisement.

Overall, the Online Advertising & Media segment recorded net sales of ¥12,267 million (up 6.0% year-on-year), and operating profit of ¥311 million (up 21.8% year-on-year). Focus in this segment remains on developing and sales of new proprietary products meeting market needs.

3) Internet Finance

The Internet Finance segment operates online financial services for retail investors. During the three months ended March 31, 2018, the segment has worked to increase customer base and transaction volume. The customer base has increased with the number of OTC FX accounts increasing to 709 thousand (up 9.1% year-on-year) and the number of Securities accounts increasing to 339 thousand (up 9.1% year-on-year). Using big data is contributing to improvement in the profitability of the OTC FX trading which accounts for more than half of net sales and profit of the segment. Sales of various products also showed favorable growth.

Overall, the Internet Finance segment recorded net sales of ¥8,151 million (up 46.1% year-on-year) and operating profit of ¥3,303 million (up 167.0% year-on-year).

4) Cryptocurrency

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

i. Cryptocurrency exchange

In this business, GMO Coin, a consolidated subsidiary of GMO Financial Holdings, are engaged in spot trading and leveraged transactions of cryptocurrency. During the three months ended March 31, 2018, while the number of account opening increased favorably due to proactive promotional activities, loss on valuation of proprietary positions increased, especially in January, due to the inability to respond to changes in cryptocurrency markets. With measures to control positions put into place, the business started to achieve positive figures in March and recorded net sales of ¥192 million.

ii. Cryptocurrency mining

In this business, the Company and its consolidated subsidiaries in Europe are engaged in cryptocurrency mining business for bitcoin, etc. As construction of additional mining facilities and mining progressed as planned, the business recorded net sales of ¥442 million.

Overall, the Cryptocurrency segment recorded net sales of ¥635 million but recorded net loss of ¥735 million as profit in the cryptocurrency mining business was insufficient to offset loss recorded in the cryptocurrency exchange business.

5) Incubation

This segment is engaged in investing in internet related companies aimed at capital gains, supporting business expansion, and supporting corporate value improvement. During the three months ended March 31, 2018, net sales were ¥180 million (up 156.3% year-on-year), and operating loss was ¥54 million (¥5 million of operating loss in the previous corresponding term).

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

(Unit: ¥millions)

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Net sales	36,040	38,299	38,068	41,847	43,705
Operating profit	3,537	3,960	4,492	5,652	5,269
Ordinary profit	3,372	4,006	4,389	5,547	4,931
Profit attributable to owners of the parent	1,151	800	1,832	4,245	2,087
Total assets	616,073	605,014	661,070	749,160	758,529
Shareholders' equity	39,896	40,218	40,083	43,697	44,891

(Reference2)

Table: Quarterly Results by Segment

I Net Sales by Segment		(Unit: ¥millions)				
	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	
Internet Infrastructure						
Provider (ISP)	3,968	4,455	4,766	5,205	5,586	
Domain	1,995	2,046	2,015	2,138	2,104	
Hosting & Cloud	3,532	3,533	3,494	3,511	3,527	
Ecommerce Solutions	2,146	2,109	2,167	2,448	2,379	
Security	1,281	1,291	1,282	1,443	1,423	
Payment	5,534	5,590	5,951	7,313	6,748	
Other	1,268	1,424	1,401	1,304	1,619	
Total	19,727	20,452	21,080	23,364	23,390	
Online Advertising & Media						
Online Advertising	7,373	7,160	6,818	6,928	8,339	
Internet Media	3,379	3,056	3,160	3,037	3,152	
Internet Research & Other	819	785	736	822	774	
Total	11,572	11,001	10,715	10,789	12,267	
Internet Finance						
Total	5,578	6,869	6,960	6,973	8,151	
Cryptocurrency						
Cryptocurrency exchange	—	0	-109	869	192	
Cryptocurrency mining	—	—	—	97	442	
Total	—	0	-109	966	635	
Incubation						
Total	70	253	337	654	180	
Sub total	36,950	38,577	38,984	42,749	44,625	
Other	351	1,152	256	222	139	
Adjustment	-1,260	-1,430	-1,172	-1,125	-1,059	
Net Sales	36,040	38,299	38,068	41,847	43,705	

II Operating Profit by Segment

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Internet Infrastructure	2,151	1,800	2,023	2,503	2,587
Online Advertising & Media	255	195	286	238	311
Internet Finance	1,237	2,354	2,336	2,058	3,303
Cryptocurrency	-15	-78	-233	531	-735
Incubation	-5	102	188	383	-54
Sub total	3,622	4,374	4,600	5,715	5,412
Other	-106	-430	-124	-79	-159
Adjustment	20	16	16	15	16
Operating Profit	3,537	3,960	4,492	5,652	5,269

(Reference3)

Description of businesses in each segment

Business Segment		Main Operations
Internet Infrastructure	Domain	<ul style="list-style-type: none"> • Domain registry services including “shop” and “tokyo” • Domain registrations services: Onamae.com, MuuMuu Domain, and VALUE-DOMAIN
	Hosting & Cloud	<ul style="list-style-type: none"> • Provision, operation, management, and maintenance of dedicated, shared, VPS and cloud-based web hosting services including Onamae.com Rental Server, GMO AppsCloud, ConoHa by GMO, Z. com Cloud, GMO Cloud VPS, GMO Cloud Altus, GMO Cloud Private, KaKing, Lolipop, heteml, and 30days Album
	Ecommerce Solutions	<ul style="list-style-type: none"> • SaaS based services for online store building including Color me shop! and MakeShop. • Operation of handmade marketplace, minne • Operation of ecommerce/O2O support services etc. • Web design, operational support and system consulting, etc.
	Security	<ul style="list-style-type: none"> • DomainSSL, OrganizationSSL, and other SSL certificates, code signing certificates, PDF document signing, client certificates and other digital certificate services
	Payment	<ul style="list-style-type: none"> • GMO Payment Gateway services including PG Multi-Payment Service, comprehensive payment processing services for the public sector, and finance-related service including early payment service, transaction lending, and GMO payment after delivery
	Provider	<ul style="list-style-type: none"> • GMO TokuToku BB and other Internet provider services.
Online Advertising & Media	Online Advertising	<ul style="list-style-type: none"> • Listing and mobile ad networks, affiliate advertising, reward advertising. • Advertising planning and production
	Internet Media	<ul style="list-style-type: none"> • Development and operation of blog services yaplog! and JUGEM, Internet community services including freeml, Smartphone apps including fashion sharing app, Coordisnap. Operation of daily deals website, Kumapon by GMO, and Ad distribution to own media • SEM Media: Operation and sales of JWord, Japanese keywords, and sales of SEO.
	Internet Research & Other	<ul style="list-style-type: none"> • Provision of Internet research systems, management and operation of online research panel (GMO Research Cloud Panel)
Internet Finance	Internet Finance	<ul style="list-style-type: none"> • Operation of online securities trading, FX trading services, etc.
Cryptocurrency	Cryptocurrency exchange	<ul style="list-style-type: none"> • Spot trading and leveraged transactions of cryptocurrency
	Cryptocurrency mining	<ul style="list-style-type: none"> • Mining of bitcoin and bitcoin cash, etc.
Incubation	Venture Capital	<ul style="list-style-type: none"> • Investment in private Internet startups.

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

Assets

As of March 31, 2018, total assets increased ¥9,369 million (1.3%) from December 31, 2017 to ¥758,529 million. Major factors included an increase of ¥24,108 million (20.3%) in cash and deposits, and a decrease of ¥5,094 million (1.1%) in various assets due to fluctuations in customer assets in the Securities segment (deposits, margin transaction assets, short-term guarantee deposits, and variation margin paid).

Liabilities

As of March 31, 2018, liabilities increased ¥8,443 million (1.3%) from December 31, 2017 to ¥683,249 million. Major factors included an increase of ¥46,632 million (41.4%) in interest-bearing debt and a decrease of ¥15,031 million (3.5%) in various liabilities due to fluctuations in customer assets in the Securities segment (deposits received, margin transaction liability, guarantees received, variation margin received, and loans payable secured by securities).

Net Assets

As of March 31, 2018, net assets increased ¥926 million (1.2%) from December 31, 2017 to ¥75,280 million. Major factors included an increase of ¥1,372 million (3.6%) in earned surplus (consisting mainly of an increase from recording profit attributable to owners of the parent totaling ¥2,087 million and a decrease from dividend payments of ¥690 million).

Cash Flow

As of March 31, 2018, cash and equivalents increased ¥24,891 million (21.1%) from December 31, 2017 to ¥142,709 million. The following is a summary of cash flow activity during the three months ended March 31, 2018.

Cash Flow from Operating Activities

Outflow from operating activities was ¥17,353 million (¥20,286 million of outflow in the previous corresponding term). Major components of inflow included net profit before adjustment for tax, etc. (¥4,919 million) and depreciation (¥1,449 million). Major components of outflow included an increase in various assets due to increased customer assets in the Internet Finance segment (¥9,936 million), and a decrease in deposits received (¥4,798 million).

Cash Flow from Investing Activities

Outflow from investing activities totaled ¥2,756 million (¥3,747 million of outflow in the previous corresponding term). Major components of outflow included acquisition of intangible fixed assets including software license renewal (¥550 million), and acquisition of server and other tangible fixed assets (¥892 million).

Cash Flow from Financing Activities

Inflow from financing activities totaled ¥45,268 million (¥23,588 million of inflow in the previous corresponding term). Major components include outflow from dividend payments (¥694 million), and inflow from net increase in interest-bearing debt to improve liquidity (¥46,632 million).

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

For the fiscal year ending December 31, 2018, the Group plans to increase both net sales and profits, mainly in Internet Infrastructure segment. Meanwhile, there are certain factors that cannot be reasonably predicted at this point, including: (1) Fluctuation of Bitcoin price and competitors' movement in the Cryptocurrency business, (2) Potential impact of economic situations and market conditions in Internet Finance segment, and (3) When and how much capital gains will be realized in Incubation segment. Accordingly, we will not disclose the consolidated results forecast for the fiscal year ending December 31, 2018. In order to compensate for this point, we disclose business KPIs and operating revenue of the Cryptocurrency business and Finance business, which have material impacts on the business performance, on a monthly basis.

2. Summary of Information Related to Notes

(1) Changes to significant subsidiaries in the current term

None

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

None

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

(Changes in accounting policies)

Effective January 1, 2018, the Company applied “Tentative Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act” (Practical Issues Task Force No. 38, March 14, 2018), and the cryptocurrencies held by the Company and its consolidated subsidiaries are recorded in the consolidated balance sheet at the value based on their market prices as there is an active market, with the difference between the carrying amounts recorded in net sales. The cryptocurrencies received from depositors are recorded as cryptocurrency received in assets and liabilities and evaluated in the same way as those held by the Company and its consolidated subsidiaries, with no valuation gains or losses recorded.

The change in the accounting policy is applied retrospectively, and the quarterly consolidated financial statements for the three months ended March 31, 2017 and the consolidated financial statements for the year ended December 31, 2017 reflect the retrospective application.

As a result, cryptocurrency received of ¥29,873 million was recorded in current assets and current liabilities as of December 31, 2017, resulting in an increase of ¥29,873 million in current assets, total assets, current liabilities and total liabilities, respectively.

The impact on the quarterly consolidated financial statements for the three months ended March 31, 2017 is insignificant.

3. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheet

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2017)	1st Quarter Current Fiscal Year (As of Mar 31, 2018)
Assets		
Current Assets		
Cash and deposits	119,006	143,114
Trade notes and accounts receivable	17,597	18,971
Operational investment securities	3,910	3,819
Cryptocurrency received	29,873	10,618
Securities segment deposits	286,848	262,255
Securities segment margin transaction assets	113,833	113,636
Securities segment short term guarantee deposits	46,996	51,649
Securities segment variation margin paid	26,696	41,737
Deferred tax asset	3,114	3,555
Other	62,354	67,602
Provision for doubtful debts	-3,119	-3,553
Total Current Assets	707,112	713,407
Fixed Assets		
Tangible fixed assets	8,656	10,606
Intangible fixed assets		
Goodwill	2,310	2,163
Software	5,140	5,290
Other	12,956	13,289
Total intangible fixed assets	20,407	20,743
Investments and other assets		
Investment securities	7,701	7,820
Deferred tax asset	2,402	2,382
Other	3,245	4,034
Provision for doubtful debts	-366	-464
Total investments and other assets	12,983	13,772
Total Fixed Assets	42,047	45,122
Total Assets	749,160	758,529

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2017)	1st Quarter Current Fiscal Year (As of Mar 31, 2018)
Liabilities		
Current Liabilities		
Trade notes and accounts payable	8,672	9,595
Short term debt	90,910	138,450
Amount payable	25,980	23,799
Cryptocurrency received	29,873	10,618
Securities segment deposits received	54,729	39,545
Securities segment margin transaction liability	48,639	45,742
Securities segment guarantees received	294,916	296,343
Securities segment variation margin received	4,095	2,194
Securities segment loans payable secured by securities	22,782	26,306
Accrued corporate tax, etc.	2,107	2,956
Allowance for bonuses	1,034	1,020
Allowance for bonuses to directors	44	388
Advance payment received	7,191	7,835
Deposits received	47,462	42,662
Other	7,900	8,191
Total Current Liabilities	646,343	655,650
Fixed Liabilities		
Long term debt	21,745	20,838
Deferred tax liability	367	334
Other	4,445	4,596
Total Fixed Liabilities	26,559	25,770
Statutory Reserve		
Financial instruments transaction liability reserve	1,903	1,828
Total Statutory Reserve	1,903	1,828
Total Liabilities	674,805	683,249
Net Assets		
Shareholders' Equity		
Capital stock	5,000	5,000
Earned surplus	38,113	39,485
Treasury stock	-23	-16
Total Shareholders' Equity	43,089	44,468
Other Comprehensive Income		
Other securities valuation differences	284	258
Hedging profit/loss carried forward	-	-0
Foreign currency translation account	323	163
Total Other Comprehensive Income	608	422
Equity Warrants	73	70
Non-controlling Interests	30,582	30,319
Total Net Assets	74,354	75,280
Liabilities, Net Assets Total	749,160	758,529

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statement of income
1st Quarter

(Unit: ¥millions)

	1st Quarter Previous Fiscal Year (3 months to Mar, 2017)	1st Quarter Current Fiscal Year (3 months to Mar, 2018)
Net Sales	36,040	43,705
Cost of Sales	18,762	21,698
Gross Profit on Sales	17,278	22,007
Sales, General & Administrative Expenses	13,741	16,738
Operating Profit	3,537	5,269
Non Operating Revenue		
Dividends received	37	45
Other	57	125
Total Non Operating Revenue	95	171
Non Operating Expenses		
Interest paid	41	79
Commissions paid	7	40
Equity method investment losses	128	132
Loss on currency translation	25	207
Other	58	49
Total Non Operating Expenses	260	508
Ordinary Profit	3,372	4,931
Extraordinary Profit		
Insurance Income	160	31
Reversal of reserve for securities transaction liability	108	74
Other	11	13
Total Extraordinary Profit	279	119
Extraordinary Loss		
Information security expenses	255	46
Other	84	85
Total Extraordinary Loss	339	131
Net Profit before Adjustment for Tax, etc.	3,312	4,919
Corporate, Municipal and Enterprise Taxes	1,667	2,330
Corporate Tax etc. Adjustment	-192	-397
Total Corporate Taxes, etc.	1,474	1,932
Net Profit	1,838	2,986
Profit attributable to Non-controlling Interests	686	899
Profit attributable to Owners of the Parent	1,151	2,087

Quarterly consolidated statement of comprehensive income

(Unit: ¥millions)

	1st Quarter Previous Fiscal Year (3 months to Mar, 2017)	1st Quarter Current Fiscal Year (3 months to Mar, 2018)
Net Profit	1,838	2,986
Other Comprehensive Income		
Other securities valuation differences	-70	-194
Hedging profit/loss carried forward	-28	-0
Currency translation adjustment account	-116	-215
Share of other comprehensive income (loss) of associates accounted for using equity method	236	85
Total other comprehensive income	22	-324
Comprehensive Income	1,860	2,662
(Breakdown)		
Comprehensive income attributable to owners of the parent	1,062	1,902
Comprehensive income attributable to non-controlling interests	798	760

(3) Quarterly consolidated statement of cash flows

(Unit: ¥millions)

	1st Quarter Previous Fiscal Year (3 months to Mar, 2017)	1st Quarter Current Fiscal Year (3 months to Mar, 2018)
Cash Flow from Operating Activities		
Net profit before adjustment for tax, etc.	3,312	4,919
Depreciation expenses	1,122	1,449
Impairment loss	1	9
Amortization of goodwill	180	149
Interest paid	41	79
Change in accounts receivable (- represents increase)	-966	-796
Change in provision for doubtful debts (- represents decrease)	719	534
Change in purchase debts (- represents decrease)	182	-2,197
Change in amount payable (- represents decrease)	-355	-1,974
Change in deposits received (- represents decrease)	-3,608	-4,798
Change in deposits in securities segment (- represents increase)	-3,989	24,592
Change in short term guarantee deposits in securities segment (-represents increase)	-18	-4,653
Change in margin variation paid and received in securities segment	-2,810	-16,942
Changes in deposits and guarantees received in securities segment (- represents decrease)	-5,094	-13,757
Changes in margin trading assets and liabilities	-6,771	-2,699
Changes in loans payable secured by securities in securities segment (- represents decrease)	1,649	3,523
Other	-1,946	-3,080
Sub total	-18,352	-15,641
Interest and dividends received	50	91
Interest paid	-118	-157
Corporate tax, etc. paid	-1,865	-1,645
Cash Flow from Operating Activities	-20,286	-17,353
Cash Flow from Investing Activities		
Expenditure on payment of fixed term deposit	-2,635	-102
Return of fixed term deposit	-	875
Expenditure on acquisition of tangible fixed assets	-306	-892
Expenditure on acquisition of intangible fixed assets	-786	-550
Expenditure on acquisition of investment securities	-34	-204
Proceeds from sale of investment securities	15	-
Expenditure on origination of loans receivable	-0	-1,794
Other	-0	-86
Cash Flow from Investing Activities	-3,747	-2,756

	1st Quarter Previous Fiscal Year (3 months to Mar, 2017)	1st Quarter Current Fiscal Year (3 months to Mar, 2018)
Cash Flow from Financing Activities		
Net increase or decrease in short term loans (- represents decrease)	22,292	46,991
Proceeds from long term loans	3,035	24
Expenditure on repayment of long term loans	-222	-382
Repayment of finance lease and installment obligations	-466	-438
Payment received from partners in investment funds	-	760
Payment to partners in investment funds	-	-529
Payment received from non-controlling interests	94	58
Payment of dividends	-700	-694
Payment of dividends to non-controlling interests	-429	-531
Expenditure on acquisition of subsidiary stock without change in scope of consolidation	-15	-
Other	0	11
Cash Flow from Financing Activities	23,588	45,268
Currency Translation Adjustment on Cash and Equivalents	76	-267
Change in Cash and Equivalents (- represents decrease)	-369	24,891
Balance of Cash and Equivalents at Beginning of Term	90,125	117,817
Increase in Cash and Equivalents Following Increase in Consolidation	0	-
Balance of Cash and Equivalents at End of Term	89,757	142,709

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

Notes regarding changes impacting shareholders' equity
 None

Changes in accounting policies

Effective January 1, 2018, the Company applied "Tentative Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act" (Practical Issues Task Force No. 38, March 14, 2018), and the cryptocurrencies held by the Company and its consolidated subsidiaries are recorded in the consolidated balance sheet at the value based on their market prices as there is an active market, with the difference between the carrying amounts recorded in net sales. The cryptocurrencies received from depositors are recorded as cryptocurrency received in assets and liabilities and evaluated in the same way as those held by the Company and its consolidated subsidiaries, with no valuation gains or losses recorded.

The change in the accounting policy is applied retrospectively, and the quarterly consolidated financial statements for the three months ended March 31, 2017 and the consolidated financial statements for the year ended December 31, 2017 reflect the retrospective application.

As a result, cryptocurrency received of ¥29,873 million was recorded in current assets and current liabilities as of December 31, 2017, resulting in an increase of ¥29,873 million in current assets, total assets, current liabilities and total liabilities, respectively.

The impact on the quarterly consolidated financial statements for the three months ended March 31, 2017 is insignificant.

Segment Information

I 1st Quarter of Previous Fiscal Year (01.01.2017-03.31.2017)

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

(Unit: ¥millions)

	Segment						Other (*i)	Adjustment (*ii)	Consolidated P/L (*iii)
	Internet Infrastructure	Online Ad & Media	Internet Finance	Crypto- currency	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	19,562	10,521	5,578	—	70	35,733	307	—	36,040
Internal transactions	165	1,050	0	—	—	1,216	43	-1,260	—
Total	19,727	11,572	5,578	—	70	36,950	351	-1,260	36,040
Segment Profit/Loss	2,151	255	1,237	-15	-5	3,622	-106	20	3,537

*Notes

- i. "Other" represents mobile entertainment, culture incubation and other businesses not included in reportable segments.
- ii. The segment profit or loss adjustment (¥20 million) is an elimination of inter-segment transactions.
- iii. Segment profit or loss is based on the operating profit (or loss) line item in the quarterly consolidated statement of income.

II 1st Quarter of Current Fiscal Year (01.01.2018-03.31.2018)

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

(Unit: ¥millions)

	Segment						Other (*i)	Adjustment (*ii)	Consolidated P/L (*iii)
	Internet Infrastructure	Online Ad & Media	Internet Finance	Crypto- currency	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	23,241	11,386	8,151	635	180	43,595	110	—	43,705
Internal transactions	148	880	0	—	—	1,030	29	-1,059	—
Total	23,390	12,267	8,151	635	180	44,625	139	-1,059	43,705
Segment Profit/Loss	2,587	311	3,303	-735	-54	5,412	-159	16	5,269

*Notes

- i. "Other" represents mobile entertainment, culture incubation and other businesses not included in reportable segments.
- ii. The segment profit or loss adjustment (¥16 million) is an elimination of inter-segment transactions.
- iii. Segment profit or loss is based on the operating profit (or loss) line item in the quarterly consolidated statement of income.

2. Changes in reportable segments

Following the entry into the cryptocurrency business, the Group reviewed its business management system and changed the classification of its reportable segments from the three months ended March 31, 2018 as follows.

Previously, our reportable segments consisted of "Internet Infrastructure," "Online Advertising & Media," "Internet Finance," "Mobile Entertainment," and "Incubation." From the three months ended March 31, 2018, the segmentation was changed to consist of "Internet Infrastructure," "Online Advertising & Media," "Internet Finance," "Cryptocurrency," and "Incubation." "Mobile Entertainment" is now included in "Other."

The segment information for the three months ended March 31, 2017 is presented under the new segmentation.