

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

August 9, 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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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 Second Quarter Financial Results in the Year Ending December 2018 (01.01.2018- 06.30.2018)

(1) Consolidated Operating Results

(percentages represent year-on-year % change)

	Net Sales		Operating Profit		Ordinary Profit		Profit Attributable to Owners of the Parent	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
Six months ended								
June 30, 2018	91,270	22.8	11,783	57.2	11,337	53.6	4,231	116.8
June 30, 2017	74,340	11.4	7,497	-13.7	7,379	-11.6	1,952	-45.9

(Note) Comprehensive Income June 30, 2018: ¥11,067 million (265.3%), June 30, 2017: ¥3,029 million (-21.5 %)

	Net Profit per Share	Net Profit per Share (Diluted)
	¥	¥
Six months ended		
June 30, 2018	36.77	36.39
June 30, 2017	16.83	16.31

(2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio
	¥ millions	¥ millions	%
As of			
June 30, 2018	753,269	82,961	6.3
December 31, 2017	749,160	74,354	5.8

(Reference) Shareholders' Equity June 30, 2018: ¥47,559 million December 31, 2017: ¥43,697 million

(Note) Effective January 1, 2018, the Company applied "Tentative Practical Solution on the Accounting for Cryptocurrencies 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 17 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	6.20			
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 financial statements: None

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

1. Changes resulting from revisions to accounting standard, etc.: None

2. Changes other than those specified above: None

3. Changes in accounting estimates: None

4. Restatements: None

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

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

Q2 FYE 12/2018	115,096,887	FYE 12/2017	115,096,887
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2. Treasury shares at term end

Q2 FYE 12/2018	8,322	FYE 12/2017	11,347
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3. Average number of shares during the period

Q2 FYE 12/2018	115,087,629	Q2 FYE 12/2017	115,942,866
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*Quarterly financial results are not subject to quarterly review by independent auditors.

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

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

On August 9, 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 (<https://ir.gmo.jp/en/>) promptly after the meeting.

Contents

1. Qualitative Information related to Financial Results	2
(1) Consolidated operating results	2
(2) Consolidated financial condition	9
(3) Consolidated results forecast and other forward-looking information	9
2. Summary of Information related to Notes	10
(1) Changes to significant subsidiaries in the current term	10
(2) Special accounting treatments used in preparation of financial statements	10
(3) Changes in accounting policy, changes in accounting estimates, restatements	10
3. Quarterly Consolidated Financial Statements	11
(1) Quarterly Consolidated balance sheet	11
(2) Quarterly Consolidated statement of income and comprehensive income	13
(3) Quarterly Consolidated statement of cash flows	15
(4) Notes regarding the quarterly consolidated financial statements	17
Notes regarding the going concern assumption	17
Notes regarding changes impacting shareholders' equity	17
Changes in accounting policies	17
Segment information	17

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 Six Months Ended June 30, 2018

	Previous Q2	Current Q2	Change	% Change
Net Sales	74,340	91,270	16,930	22.8%
Operating Profit	7,497	11,783	4,286	57.2%
Ordinary Profit	7,379	11,337	3,958	53.6%
Profit Attributable to Owners of the Parent	1,952	4,231	2,279	116.8%

(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 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 changes in the online advertising market. (3) The Internet Finance segment further improved its profitability of over-the-counter FX transactions and secured favorable growth. (4) In the Cryptocurrency segment, (i) Cryptocurrency mining business experienced a decline in profitability due to a downturn in the macro environment. (ii) Cryptocurrency exchange business recorded a loss as the profit recorded for the three months ended June 30, 2018 was not sufficient to offset a loss on valuation of proprietary positions recorded in January. (5) The Incubation segment sold its shareholdings in relation to the initial public offering of the investee.

As a result, for the six months ended June 30, 2018, the Group recorded net sales of ¥91,270 million (up 22.8% year-on-year), operating profit of ¥11,783 million (up 57.2% year-on-year), ordinary profit of ¥11,337 million (up 53.6% year-on-year) and net profit attributable to owners of the parent of ¥4,231 million (up 116.8% year-on-year).

Net Sales and Operating Profit by Segment for the Six Months Ended June 30, 2018

(Unit: ¥millions)

	Previous Q2	Current Q2	Change	% Change
Internet Infrastructure				
Net Sales	40,180	48,214	8,033	20.0%
Operating Profit	3,951	5,353	1,402	35.5%
Online Advertising & Media				
Net Sales	22,574	23,279	705	3.1%
Operating Profit	450	376	-73	-16.4%
Internet Finance				
Net Sales	12,448	15,712	3,264	26.2%
Operating Profit	3,591	5,909	2,318	64.6%
Cryptocurrency				
Net Sales	0	3,293	3,292	-
Operating Profit	-93	-480	-386	-
Incubation				
Net Sales	324	2,198	1,874	578.2%
Operating Profit	96	1,509	1,413	-
Other				
Net Sales	1,503	990	-513	-34.1%
Operating Profit	-536	-918	-382	-
Adjustment				
Net Sales	-2,691	-2,417	273	-
Operating Profit	36	31	-4	-
Total				
Net Sales	74,340	91,270	16,930	22.8%
Operating Profit	7,497	11,783	4,286	57.2%

◆ Overview of Financial Results for the Three Months ended June 30, 2018

(Unit: ¥millions)

	Previous Q2	Current Q2	Change	% Change
Net Sales	38,299	47,564	9,265	24.2%
Operating Profit	3,960	6,514	2,554	64.5%
Ordinary Profit	4,006	6,405	2,399	59.9%
Profit attributable to Owners of the Parent	800	2,144	1,343	167.8%

For the three months ended June 30, 2018, net sales achieved a record high as the Internet Infrastructure segment showed a strong growth with an expanded customer base, the Internet Finance segment continued to show an improvement in profitability despite a decline in FX transaction volume, and the Incubation segment also showed a positive growth with sales of its shareholdings in relation to the IPO of the investee. In the Cryptocurrency segment, the Cryptocurrency exchange business recorded a profit as a result of implementing various measures after recording a loss temporarily in the three months ended March 31, 2018. But the Cryptocurrency mining business recorded a loss due to a declined profitability caused by a downturn in the macro environment although the expansion of mining facilities progressed as planned.

Net Sales and Operating Profit by Segment for the Three Months ended June 30, 2018

(Unit: ¥millions)

	Previous Q2	Current Q2	Change	% Change
Internet Infrastructure				
Net Sales	20,452	24,823	4,371	21.4%
Operating Profit	1,800	2,766	966	53.7%
Online Advertising & Media				
Net Sales	11,001	11,012	10	0.1%
Operating Profit	195	65	-129	-66.4%
Internet Finance				
Net Sales	6,869	7,560	691	10.1%
Operating Profit	2,354	2,605	251	10.7%
Cryptocurrency				
Net Sales	0	2,657	2,657	-
Operating Profit	-78	255	333	-
Incubation				
Net Sales	253	2,018	1,764	695.5%
Operating Profit	102	1,564	1,461	-
Other				
Net Sales	1,152	851	-301	-26.1%
Operating Profit	-430	-759	-329	-
Adjustment				
Net Sales	-1,430	-1,358	72	-
Operating Profit	16	15	-0	-
Total				
Net Sales	38,299	47,564	9,265	24.2%
Operating Profit	3,960	6,514	2,554	64.5%

Segments results for the three months ended June 30, 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 June 30, 2018 was 1.24 million (down 2.2% year-on-year), and total number of domains under management as of June 30, 2018 was 6.05 million (down 1.1% year-on-year). Net sales were ¥2,141 million (up 4.6% 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 June 30, 2018 was 815 thousand (up 2.4% year-on-year) and net sales were ¥3,519 million (down 0.4% 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 sales promotion using coupons in addition to investment in promotion.

As a result, the number of paid stores as of June 30, 2018 was 73 thousand (down 2.6% year-on-year), and total transaction volume was ¥70.8 billion (up 7.1% year-on-year) showing a steady growth despite a loss of certain customers due to the incident. For minne, total transaction volume was ¥2.99 billion (up 20.0% year-on-year), and net sales of the segment were ¥2,510 million (up 19.0% year-on-year).

iv. Security

As the global expansion of security brand GlobalSign progressed, direct sales targeting large corporations and active sales partners drove market share growth both in Japan and globally with the benefit of the penetration of Always-On SSL. Security reported net sales of ¥1,484 million (up 14.9% 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 continues to be extremely favorable, with promotion of Ecommerce in new service areas beyond product sales and advancement in cashless payments. During the three months ended June 30, 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 ¥6,819 million (up 22.0% year-on-year).

vi. Provider

This sub-segment operates Internet provider services for consumers. As the mobile internet usage becomes popular with the penetration of devices such as smartphones, and coupled with the enhanced product lineup, the number of subscriptions at June 30, 2018 was 1,202 thousand (up 57.4% year-on-year) and net sales amounted to ¥6,460 million (up 45.0% year-on-year).

The market share expanded in each of the key Internet Infrastructure businesses, and overall net sales amounted to ¥24,823 million (up 21.4% year-on-year). Operating profit showed a significant growth and amounted to ¥2,766 million (up 53.7% 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. The online advertising market has witnessed an increasing number of cases where, in addition to traditional operational advertising, video ads and online advertising are also used as mass advertising to improve “recognition,” and more and more advertisers are using online advertising. And the market is expected to continue expanding. For the three months ended June 30, 2018, while in-house ad-tech products, such as AkaNe for advertisement for smartphones and TAXEL for recommendation widgets, continued to show a steady growth, the advertising agency business faced temporary curtailment of advertising budget by certain customers triggered by the ad fraud issues. As a result, net sales amounted to ¥7,058 million (down 1.4% 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 ¥3,235 million (up 5.9% year-on-year) due to favorable growth in affiliated advertisement despite a continued impact from the decrease in banner advertisement as a consequence of the change in regulations on transmission for ad network advertisement in Q2 of FY2017.

Overall, the Online Advertising & Media segment recorded net sales of ¥11,012 million (up 0.1% year-on-year), and operating profit of ¥65 million (down 66.4% year-on-year) due to impacts from deterioration of sales mix and ad fraud issues. 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 June 30, 2018, the segment has worked to increase customer base and transaction volume. The customer base has continued to increase with the number of OTC FX accounts increasing to 725 thousand (up 9.4% year-on-year) and the number of Securities accounts increasing to 346 thousand (up 9.2% year-on-year). Big data analysis 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, despite a decline in the transaction volume.

Overall, the Internet Finance segment recorded net sales of ¥7,560 million (up 10.1% year-on-year) and operating profit of ¥2,605 million (up 10.7% 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 June 30, 2018, despite a decreasing trend of the transaction volume against a backdrop of reduced volatility of cryptocurrency, the number of account opening increased to 169 thousand. Although a loss on valuation of proprietary positions was recorded temporarily in the three months ended March 31, 2018, measures including position control proved effective, and as a result, net sales increased significantly to ¥1,420 million and the business recorded a profit.

ii. Cryptocurrency mining

In this business, the Company and its consolidated subsidiaries in Europe are engaged in cryptocurrency mining business for bitcoin, etc. While expansion of mining facilities and mining progressed as planned and the business recorded net sales of ¥1,237 million, it was insufficient to cover the increased fix costs because of a decline in mining profitability due to deteriorated macro environment including stagnant bitcoin price and an increase in hash rate, and as a result, the business recorded a loss.

Overall, the Cryptocurrency segment recorded net sales of ¥2,657 million and recorded operating profit of ¥255 million as loss in the cryptocurrency mining business was offset by profit recorded in the cryptocurrency exchange business.

5) Incubation Segment

This segment is engaged in investing in internet related companies aimed at capital gains, supporting business expansion, and supporting corporate value improvement. For the three months ended June 30, 2018, net sales were ¥2,018 million (up 695.5% year-on-year) due to a sale of its shareholdings in relation to the IPO of the investee, and operating profit was ¥1,564 million.

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

(Unit: ¥millions)

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Net Sales	38,299	38,068	41,847	43,705	47,564
Operating Profit	3,960	4,492	5,652	5,269	6,514
Ordinary Profit	4,006	4,389	5,547	4,931	6,405
Profit Attributable to Owners of the Parent	800	1,832	4,245	2,087	2,144
Total Assets	605,014	661,070	749,160	758,529	753,269
Shareholders' Equity	40,218	40,083	43,697	44,891	47,559

(Reference2)

Table: Quarterly Results by Segment

I Net Sales by Segment		(Unit: ¥millions)				
	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	
Internet Infrastructure						
Provider (ISP)	4,455	4,766	5,205	5,586	6,460	
Domain	2,046	2,015	2,138	2,104	2,141	
Hosting & Cloud	3,533	3,494	3,511	3,527	3,519	
Ecommerce Solutions	2,109	2,167	2,448	2,379	2,510	
Security	1,291	1,282	1,443	1,423	1,484	
Payment	5,590	5,951	7,313	6,748	6,819	
Other	1,424	1,401	1,304	1,619	1,887	
Total	20,452	21,080	23,364	23,390	24,823	
Online Advertising & Media						
Online Advertising	7,160	6,818	6,928	8,339	7,058	
Internet Media	3,056	3,160	3,037	3,152	3,235	
Internet Research & Other	785	736	822	774	718	
Total	11,001	10,715	10,789	12,267	11,012	
Internet Finance						
Total	6,869	6,960	6,973	8,151	7,560	
Cryptocurrency						
Cryptocurrency exchange	0	-109	869	192	1,420	
Cryptocurrency mining	—	—	97	442	1,237	
Total	0	-109	966	635	2,657	
Incubation						
Total	253	337	654	180	2,018	
Sub total	38,577	38,984	42,749	44,625	48,072	
Other	1,152	256	222	139	851	
Adjustment	-1,430	-1,172	-1,125	-1,059	-1,358	
Net Sales	38,299	38,068	41,847	43,705	47,564	

II Operating Profit by Segment

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Internet Infrastructure	1,800	2,023	2,503	2,587	2,766
Online Advertising & Media	195	286	238	311	65
Internet Finance	2,354	2,336	2,058	3,303	2,605
Cryptocurrency	-78	-233	531	-735	255
Incubation	102	188	383	-54	1,564
Sub total	4,374	4,600	5,715	5,412	7,257
Other	-430	-124	-79	-159	-759
Adjustment	16	16	15	16	15
Operating Profit	3,960	4,492	5,652	5,269	6,514

(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 June 30, 2018, total assets increased ¥4,109 million (0.5%) from December 31, 2017 to ¥753,269 million. Major factors included an increase of ¥3,422 million (2.9%) in cash and deposits, an increase of ¥6,654 million (76.9%) in tangible fixed assets, and a decrease of ¥15,193 million (3.2%) in various assets due to fluctuations in customer assets in the Finance segment, etc. (deposits, margin transaction assets, short term guarantee deposits, and variation margin paid).

Liabilities

As of June 30, 2018, liabilities decreased ¥4,498 million (0.7%) from December 31, 2017 to ¥670,307 million. Major factors included an increase of ¥17,501 million as a result of issuance of convertible bonds with equity warrants by GMO Payment Gateway, a consolidated subsidiary, and a decrease of ¥16,211 million (3.8%) in various liabilities due to fluctuations in customer assets in the Finance segment, etc. (deposits received, margin transaction liability, guarantees received, variation margin received, and debt secured by securities).

Net Assets

As of June 30, 2018, net assets increased ¥8,607 million (11.6%) from December 31, 2017 to ¥82,961 million. Major factors included an increase of ¥2,801 million (7.4%) in earnings surplus (consisting mainly of an increase from recording profit attributable to owners of the parent totaling ¥4,231 million and a decrease from dividend payments of ¥1,381 million).

Cash Flow

As of June 30, 2018, cash and equivalents increased ¥4,210 million (3.6%) from December 31, 2017 to ¥122,028 million. The following is a summary of cash flow activity in the second quarter.

Cash Flow from Operating Activities

Inflow from operating activities was ¥445 million (¥3,408 million of outflow in the previous corresponding term). Major components of inflow included net profit before adjustment for tax, etc. (¥12,014 million) and depreciation (¥3,508 million). Major components of outflow included an increase in various assets due to increased customer assets in the Internet Finance segment (¥1,018 million), and a decrease in deposits received (¥5,331 million).

Cash Flow from Investing Activities

Outflow from investing activities totaled ¥20,296 million (¥5,151 million of outflow in the previous corresponding term). Major components of outflow included acquisition of tangible fixed assets including mining equipment (¥17,450 million) and acquisition of intangible fixed assets (¥2,041 million).

Cash Flow from Financing Activities

Inflow from financing activities totaled ¥24,537 million (¥6,999 million of outflow in the previous corresponding term). Major components include outflow from dividend payments (¥1,372 million), and changes in short and long term debt to improve liquidity (¥9,334 million) and inflow from issuance of convertible bonds with equity warrants by GMO Payment Gateway, a consolidated subsidiary (¥17,510 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 segment, (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 segment and Finance segment, 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 consolidated financial statements
None

(3) Changes in accounting policy, 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 June 30, 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 six months ended June 30, 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)	2nd Quarter Current Fiscal Year (As of June 30, 2018)
Assets		
Current Assets		
Cash and deposits	119,006	122,429
Trade notes and accounts receivable	17,597	17,766
Operational investment securities	3,910	7,589
Cryptocurrency received	29,873	13,527
Securities segment deposits	286,848	263,576
Securities segment margin transaction assets	113,833	104,858
Securities segment short term guarantee deposits	46,996	54,031
Securities segment variation margin paid	26,696	36,713
Deferred tax asset	3,114	3,565
Other	62,354	79,860
Provision for doubtful debts	-3,119	-3,076
Total Current Assets	707,112	700,842
Fixed Assets		
Tangible fixed assets	8,656	15,311
Intangible fixed assets		
Goodwill	2,310	2,116
Software	5,140	5,288
Other	12,956	13,617
Total intangible fixed assets	20,407	21,022
Investments and other assets		
Investment securities	7,701	9,279
Deferred tax asset	2,402	2,220
Other	3,245	5,197
Provision for doubtful debts	-366	-604
Total investments and other assets	12,983	16,092
Total Fixed Assets	42,047	52,426
Total Assets	749,160	753,269

	(Unit: ¥millions)	
	Previous Fiscal Year (As of Dec 31, 2017)	2nd Quarter Current Fiscal Year (As of June 30, 2018)
Liabilities		
Current Liabilities		
Trade notes and accounts payable	8,672	8,568
Short term debt	90,910	105,676
Amount payable	25,980	25,715
Cryptocurrency received	29,873	13,527
Securities segment deposits received	54,729	42,378
Securities segment margin transaction liability	48,639	34,159
Securities segment guarantees received	294,916	306,471
Securities segment variation margin received	4,095	2,338
Securities segment debt secured by securities	22,782	23,604
Accrued corporate tax, etc.	2,107	4,157
Allowance for bonuses	1,034	1,127
Allowance for bonuses to directors	44	629
Advance payment received	7,191	8,058
Deposits received	47,462	42,128
Other	7,900	9,832
Total Current Liabilities	646,343	628,374
Fixed Liabilities		
Convertible bonds with equity warrants	-	17,501
Long term debt	21,745	16,314
Deferred tax liability	367	1,805
Other	4,445	4,565
Total Fixed Liabilities	26,559	40,186
Statutory Reserve		
Financial instruments transaction liability reserve	1,903	1,746
Total Statutory Reserve	1,903	1,746
Total Liabilities	674,805	670,307
Net Assets		
Shareholders' Equity		
Capital stock	5,000	5,000
Earned surplus	38,113	40,915
Treasury stock	-23	-16
Total Shareholders' Equity	43,089	45,898
Other Comprehensive Income		
Other securities valuation differences	284	1,609
Hedging profit/loss carried forward	-	9
Foreign currency translation account	323	42
Total Other Comprehensive Income	608	1,661
Equity Warrants	73	71
Non-controlling Interests	30,582	35,330
Total Net Assets	74,354	82,961
Liabilities, Net Assets Total	749,160	753,269

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statement of income
2nd Quarter (cumulative)

(Unit: ¥millions)

	2nd Quarter Previous Fiscal Year (6 months to Jun, 2017)	2nd Quarter Current Fiscal Year (6 months to Jun, 2018)
Net Sales	74,340	91,270
Cost of Sales	38,692	45,606
Gross Profit on Sales	35,647	45,664
Sales, General & Administrative Expenses	28,150	33,881
Operating Profit	7,497	11,783
Non Operating Revenue		
Dividends received	34	307
Other	189	215
Total Non Operating Revenue	223	522
Non Operating Expenses		
Interest paid	81	151
Commissions paid	15	101
Equity method investment losses	180	251
Loss on currency translation	–	268
Other	64	195
Total Non Operating Expenses	342	969
Ordinary Profit	7,379	11,337
Extraordinary Profit		
Gain on sale of investment securities	7	693
Reversal of reserve for securities transaction liability	158	157
Other	162	114
Total Extraordinary Profit	328	965
Extraordinary Loss		
Impairment loss	20	143
Loss on change in equity	186	–
Other	658	145
Total Extraordinary Loss	865	288
Net Profit before Adjustment for Tax etc.	6,842	12,014
Corporate, Municipal and Enterprise Taxes	3,306	4,674
Corporate Tax etc. Adjustment	277	-330
Total Corporate Taxes etc.	3,584	4,343
Net Profit	3,257	7,670
Profit attributable to Non-controlling Interests	1,305	3,438
Profit attributable to Owners of the Parent	1,952	4,231

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

(Unit: ¥millions)

	2nd Quarter Previous Fiscal Year (6 months to Jun, 2017)	2nd Quarter Current Fiscal Year (6 months to Jun, 2018)
Net Profit	3,257	7,670
Other Comprehensive Income		
Other securities valuation differences	-170	1,994
Hedging profit/loss carried forward	-57	9
Currency translation adjustment account	-149	-158
Share of other comprehensive income of entities accounted for using equity method	149	-33
Total other comprehensive income	-227	1,812
Comprehensive Income	3,029	9,483
(Breakdown)		
Comprehensive income attributable to owners of the parent	1,776	5,285
Comprehensive income attributable to non-controlling interests	1,253	4,197

(3) Consolidated statement of cash flows

(Unit: ¥millions)

	2nd Quarter Previous Fiscal Year (6 months to Jun, 2017)	2nd Quarter Current Fiscal Year (6 months to Jun, 2018)
Cash Flow from Operating Activities		
Net profit before adjustment for tax etc.	6,842	12,014
Depreciation expenses	2,304	3,508
Impairment loss	20	143
Amortization of goodwill	388	283
Gain and loss on change in equity (-represents gain)	186	—
Interest paid	81	151
Gain and loss on sale of investment securities (-represents gain)	-8	-693
Insurance income	-160	-31
Information security countermeasure cost	255	48
Change in accounts receivable (-represents increase)	553	596
Change in provision for doubtful debts(- represents decrease)	1,367	197
Change in purchase debts (- represents decrease)	-3,133	-5,816
Change in amount payable (- represents decrease)	-1,278	-268
Change in deposits received (- represents decrease)	-2,078	-5,331
Change in deposits in securities segment, etc. (- represents increase)	-6,705	23,271
Change in short term guarantee deposits in securities segment, etc. (-represents increase)	-1,020	-7,035
Change in margin variation paid and received in securities segment, etc.	-3,117	-11,774
Changes in deposits and guarantees received in securities segment, etc. (- represents decrease)	12,507	-795
Changes in margin trading assets and liabilities in securities segment, etc.	-11,092	-5,504
Changes in debt secured by securities in securities segment, etc. (- represents decrease)	7,471	821
Other	-3,196	-580
Sub total	187	3,203
Interest and dividends received	55	286
Interest paid	-246	-324
Payment on information security countermeasure	-200	-46
Corporate tax etc. paid	-3,203	-2,674
Cash Flow from Operating Activities	-3,408	445
Cash Flow from Investing Activities		
Expenditure on payment of fixed term deposit	-2,638	-102
Return of fixed term deposit	—	875
Expenditure on acquisition of tangible fixed assets	-801	-17,450
Expenditure on acquisition of intangible fixed assets	-1,638	-2,041
Expenditure on acquisition of investment securities	-108	-303
Income accrued on the sale of investment securities	15	725
Expenditure on origination of loans receivable	-1	-1,800
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	20	—
Other	1	-198
Cash Flow from Investing Activities	-5,151	-20,296

	2nd Quarter Previous Fiscal Year (6 months to Jun, 2017)	2nd Quarter Current Fiscal Year (6 months to Jun, 2018)
Cash Flow from Financing Activities		
Net increase or decrease in short term debt (- represents decrease)	-11,052	10,075
Income accrued on long term debt	9,052	24
Expenditure on repayment of long term debt	-2,549	-765
Proceeds from issuance of convertible bonds with equity warrants	-	17,510
Repayment of installment obligations and lease obligations	-906	-810
Payment received from partners in investment funds	375	1,069
Expenditure on repayment to partners in investment funds	-202	-573
Revenue accrued from non-controlling interests	141	115
Payment of dividends	-1,269	-1,372
Payment of dividends to non-controlling interests	-541	-737
Expenditure on acquisition of subsidiary stock without change in scope of consolidation	-15	-
Other	-31	3
Cash Flow from Financing Activities	-6,999	24,537
Currency Translation Adjustment on Cash and Equivalents	203	-475
Change in Cash and Equivalents (- represents decrease)	-15,355	4,210
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	74,771	122,028

(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 Cryptocurrencies 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.

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The impact on the quarterly consolidated financial statements for the six months ended June 30, 2017 is insignificant.

Segment Information

I 2nd Quarter of Previous Fiscal Year (01.01.2017-06.30.2017)

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

(Unit: ¥millions)

	Reportable segment						Other (*i)	Adjustment (*ii)	Consolidated P/L (*iii)
	Internet Infrastructure	Online Ad & Media	Internet Finance	Crypto- currency	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	39,858	20,287	12,446	0	324	72,918	1,422	—	74,340
Internal transactions	321	2,286	1	—	—	2,609	81	-2,691	—
Total	40,180	22,574	12,448	0	324	75,527	1,503	-2,691	74,340
Segment Profit/Loss	3,951	450	3,591	-93	96	7,997	-536	36	7,497

*Notes

- i. "Other" represents mobile entertainment, culture incubation and other businesses not included in reportable segments.
- ii. Segment Profit/Loss adjustment (¥36 million) is an elimination of inter-segment transactions.
- iii. Segment Profit/Loss is based on the Operating Profit (or Loss) line item in the quarterly consolidated statement of income.

II 2nd Quarter of Current Fiscal Year (01.01.2018-06.30.2018)

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

(Unit: ¥millions)

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

*Notes

- i. "Other" represents mobile entertainment, culture incubation and other businesses not included in reportable segments.
- ii. Segment Profit/Loss adjustment (¥31 million) is an elimination of inter-segment transactions.
- iii. Segment Profit/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 six months ended June 30, 2017 is presented under the new segmentation.