

## Fiscal Year 2018 Third Quarter Consolidated Financial Results (Japanese GAAP)

November 12, 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 Third Quarter Financial Results in the Year Ending December 31, 2018 (01.01.2018- 09.30.2018)

#### (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	%
Nine months ended								
September 30, 2018	137,164	22.0	17,318	44.4	16,509	40.3	6,149	62.5
September 30, 2017	112,409	12.5	11,989	-7.6	11,768	-6.5	3,784	-36.4

(Note) Comprehensive Income September 30, 2018: ¥14,866 million (129.9%), September 30, 2017: ¥6,467 million (-6.9 %)

	Net Profit per Share	Net Profit per Share (Diluted)
Nine months ended	¥	¥
September 30, 2018	53.42	52.67
September 30, 2017	32.67	31.83

#### (2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio
As of	¥ millions	¥ millions	%
September 30, 2018	781,543	85,159	6.2
December 31, 2017	749,160	74,354	5.8

(Reference) Shareholders' Equity September 30, 2018: ¥48,550 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	5.50		
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, Inc., 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: Yes

(Changes to specified subsidiaries resulting in changes in scope of consolidation)

New: 1 (GMO Click Global Markets, 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 standard, etc.: None

2. Changes other than those specified above: Yes

3. Changes in accounting estimates: None

4. Restatements: None

(4) Number of Outstanding Shares (Common Shares)

(Unit: shares)

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

Q3 FYE 12/2018	115,096,887	FYE 12/2017	115,096,887
Q3 FYE 12/2018	8,339	FYE 12/2017	11,347
Q3 FYE 12/2018	115,087,944	Q3 FYE 12/2017	115,833,673

2. Treasury shares at term end

3. Average number of shares during the period

\*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 November 12, 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.

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## 1. Qualitative Information Related to Quarterly 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 Nine Months Ended September 30, 2018

	Previous Q3	Current Q3	Change	% Change
Net Sales	112,409	137,164	24,755	22.0%
Operating Profit	11,989	17,318	5,328	44.4%
Ordinary Profit	11,768	16,509	4,741	40.3%
Profit Attributable to Owners of the Parent	3,784	6,149	2,364	62.5%

(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 temporarily recorded a loss on valuation of proprietary positions for the three months ended March 31, 2018, but showed a steady growth and recorded profit after late February as a result of implementing various measures. (5) The Incubation segment sold its shareholdings in relation to the initial public offering of the investee during the three months ended June 30, 2018.

As a result, for the nine months ended September 30, 2018, the Group recorded net sales of ¥137,164 million (up 22.0% year-on-year), operating profit of ¥17,318 million (up 44.4% year-on-year), ordinary profit of ¥16,509 million (up 40.3% year-on-year) and net profit attributable to owners of the parent of ¥6,149 million (up 62.5% year-on-year).

Net Sales and Operating Profit by Segment for the Nine Months Ended September 30, 2018

(Unit: ¥millions)

	Previous Q3	Current Q3	Change	% Change
Internet Infrastructure				
Net Sales	61,260	73,679	12,418	20.3%
Operating Profit	5,975	8,284	2,309	38.7%
Online Advertising & Media				
Net Sales	33,290	34,746	1,455	4.4%
Operating Profit	736	436	-300	-40.8%
Internet Finance				
Net Sales	19,408	23,206	3,797	19.6%
Operating Profit	5,927	8,495	2,567	43.3%
Cryptocurrency				
Net Sales	-108	5,912	6,021	—
Operating Profit	-327	-375	-48	—
Incubation				
Net Sales	661	2,306	1,644	248.4%
Operating Profit	285	1,438	1,153	404.1%
Other				
Net Sales	1,760	1,132	-627	-35.6%
Operating Profit	-661	-1,010	-349	—
Adjustment				
Net Sales	-3,863	-3,818	45	—
Operating Profit	53	50	-3	—
Total				
Net Sales	112,409	137,164	24,755	22.0%
Operating Profit	11,989	17,318	5,328	44.4%

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

(Unit: ¥millions)

	Previous Q3	Current Q3	Change	% Change
Net Sales	38,068	45,894	7,825	20.6%
Operating Profit	4,492	5,535	1,042	23.2%
Ordinary Profit	4,389	5,172	783	17.8%
Profit attributable to Owners of the Parent	1,832	1,917	84	4.6%

For the three months ended September 30, 2018, the Internet Infrastructure segment showed a strong growth with an expanded customer base, and the Internet Finance segment continued to show an improvement in profitability despite a decline in FX transaction volume. The Cryptocurrency segment recorded a profit as while the Cryptocurrency mining business recorded a loss due to a declined profitability caused by a downturn in the macro environment, the Cryptocurrency exchange business recorded a profit as a result of implementing various measures.

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

(Unit: ¥millions)

	Previous Q3	Current Q3	Change	% Change
Internet Infrastructure				
Net Sales	21,080	25,465	4,384	20.8%
Operating Profit	2,023	2,930	907	44.8%
Online Advertising & Media				
Net Sales	10,715	11,466	750	7.0%
Operating Profit	286	59	-226	-79.2%
Internet Finance				
Net Sales	6,960	7,493	533	7.7%
Operating Profit	2,336	2,585	249	10.7%
Cryptocurrency				
Net Sales	-109	2,619	2,728	—
Operating Profit	-233	104	337	—
Incubation				
Net Sales	337	107	-230	-68.1%
Operating Profit	188	-71	-260	—
Other				
Net Sales	256	142	-114	-44.5%
Operating Profit	-124	-91	33	—
Adjustment				
Net Sales	-1,172	-1,400	-227	—
Operating Profit	16	18	1	—
Total				
Net Sales	38,068	45,894	7,825	20.6%
Operating Profit	4,492	5,535	1,042	23.2%

Segments results for the three months ended September 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 September 30, 2018 was 1.33 million (up 8.1% year-on-year), and total number of domains under management as of September 30, 2018 was 6.21 million (up 3.1% year-on-year). Net sales were ¥2,100 million (up 4.2% year-on-year).

ii. Hosting & Cloud

The hosting & cloud business responds to growing diversification of client needs through shared, VPS, dedicated and cloud-based offerings under a multi-brand strategy. The number of web hosting contracts as of September 30, 2018 was 852 thousand (up 6.7% year-on-year) and net sales were ¥3,614 million (up 3.4% 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 September 30, 2018 was 73 thousand (down 3.9% year-on-year), and total transaction volume was ¥70.5 billion (up 6.4% year-on-year) showing a steady growth partly due to increased spending per customer despite a loss of certain customers with low utilization ratio. For minne, total transaction volume was ¥2.90 billion (up 16.0% year-on-year), and net sales of the segment were ¥2,620 million (up 20.9% 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 with the benefit of the penetration of Always-On SSL. Security reported net sales of ¥1,503 million (up 17.3% year-on-year), with overseas sales ratio of approximately 60%.

#### 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 September 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 ¥7,304 million (up 22.8% year-on-year).

#### vi. Provider

This sub-segment operates Internet provider services for consumers. Due to the enhanced product lineup, the number of subscriptions at September 30, 2018 was 1,305 thousand (up 55.4% year-on-year) and net sales amounted to ¥6,902 million (up 44.8% year-on-year).

The market share expanded in each of the key Internet Infrastructure businesses, and overall net sales amounted to ¥25,465 million (up 20.8% year-on-year). Operating profit showed a significant growth and amounted to ¥2,930 million (up 44.8% 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 September 30, 2018, the advertising agency business recovered from a temporary downturn triggered by the ad fraud issues during the three months ended June 30, 2018 and has worked on measures to enhance its mid- to long-term competitive strengths including tightening the posting criteria to improve credibility of in-house ad network products. As a result, net sales amounted to ¥7,895 million (up 15.8% 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 ¥2,842 million (down 10.1% year-on-year) due to weak sales because of declined ad unit price and a decrease in sales of existing products despite an increase in the number of EC media users.

Overall, the Online Advertising & Media segment recorded net sales of ¥11,466 million (up 7.0% year-on-year), and operating profit of ¥59 million (down 79.2% year-on-year) due to impacts from deterioration of sales mix and ad fraud issues. The segment will continue to focus on development and sales of new proprietary products meeting market needs in addition to working on customer-related issues such as ad fraud.

### 3) Internet Finance

The Internet Finance segment operates online financial services for retail investors. During the three months ended September 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 744 thousand (up 9.8% year-on-year) and the number of Securities accounts increasing to 358 thousand (up 10.6% 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 ¥7,493 million (up 7.7% year-on-year) and operating profit of ¥2,585 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 September 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 197 thousand. Net sales increased significantly to ¥1,369 million as measures including position control proved effective.

#### 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 progressed as planned, because net sales increased only slightly year-on-year to ¥1,249 million because of a decline in profitability due to deteriorated macro environment including stagnant bitcoin price and an increase in hash rate, it was insufficient to cover the increased fix costs, and as a result, the business recorded a loss.

Overall, the Cryptocurrency segment recorded net sales of ¥2,619 million and operating profit of ¥104 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 September 30, 2018, net sales were ¥107 million (down 68.1% year-on-year) and operating loss was ¥71 million (operating profit of ¥188 million in the previous corresponding term).

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

(Unit: ¥millions)

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Net Sales	38,068	41,847	43,705	47,564	45,894
Operating Profit	4,492	5,652	5,269	6,514	5,535
Ordinary Profit	4,389	5,547	4,931	6,405	5,172
Profit Attributable to Owners of the Parent	1,832	4,245	2,087	2,144	1,917
Total Assets	661,070	749,160	758,529	753,269	781,543
Shareholders' Equity	40,083	43,697	44,891	47,559	48,550



(Reference2)

Table: Quarterly Results by Segment

I Net Sales by Segment		(Unit: ¥millions)				
	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	
<b>Internet Infrastructure</b>						
Provider (ISP)	4,766	5,205	5,586	6,460	6,902	
Domain	2,015	2,138	2,104	2,141	2,100	
Hosting & Cloud	3,494	3,511	3,527	3,519	3,614	
Ecommerce Solutions	2,167	2,448	2,379	2,510	2,620	
Security	1,282	1,443	1,423	1,484	1,503	
Payment	5,951	7,313	6,748	6,819	7,304	
Other	1,401	1,304	1,619	1,887	1,418	
<b>Total</b>	<b>21,080</b>	<b>23,364</b>	<b>23,390</b>	<b>24,823</b>	<b>25,465</b>	
<b>Online Advertising &amp; Media</b>						
Online Advertising	6,818	6,928	8,339	7,058	7,895	
Internet Media	3,160	3,037	3,152	3,235	2,842	
Internet Research & Other	736	822	774	718	728	
<b>Total</b>	<b>10,715</b>	<b>10,789</b>	<b>12,267</b>	<b>11,012</b>	<b>11,466</b>	
<b>Internet Finance</b>						
<b>Total</b>	<b>6,960</b>	<b>6,973</b>	<b>8,151</b>	<b>7,560</b>	<b>7,493</b>	
<b>Cryptocurrency</b>						
Cryptocurrency exchange	-109	869	192	1,420	1,369	
Cryptocurrency mining	—	97	442	1,237	1,249	
<b>Total</b>	<b>-109</b>	<b>966</b>	<b>635</b>	<b>2,657</b>	<b>2,619</b>	
<b>Incubation</b>						
<b>Total</b>	<b>337</b>	<b>654</b>	<b>180</b>	<b>2,018</b>	<b>107</b>	
<b>Sub total</b>	<b>38,984</b>	<b>42,749</b>	<b>44,625</b>	<b>48,072</b>	<b>47,152</b>	
Other	256	222	139	851	142	
Adjustment	-1,172	-1,125	-1,059	-1,358	-1,400	
<b>Net Sales</b>	<b>38,068</b>	<b>41,847</b>	<b>43,705</b>	<b>47,564</b>	<b>45,894</b>	

## II Operating Profit by Segment

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Internet Infrastructure	2,023	2,503	2,587	2,766	2,930
Online Advertising & Media	286	238	311	65	59
Internet Finance	2,336	2,058	3,303	2,605	2,585
Cryptocurrency	-233	531	-735	255	104
Incubation	188	383	-54	1,564	-71
<b>Sub total</b>	<b>4,600</b>	<b>5,715</b>	<b>5,412</b>	<b>7,257</b>	<b>5,608</b>
Other	-124	-79	-159	-759	-91
Adjustment	16	15	16	15	18
<b>Operating Profit</b>	<b>4,492</b>	<b>5,652</b>	<b>5,269</b>	<b>6,514</b>	<b>5,535</b>

(Reference3)

Description of businesses in each segment

Business Segment		Main Operations
Internet Infrastructure	Domain	<ul style="list-style-type: none"> <li>• Domain registry services including “shop” and “tokyo”</li> <li>• Domain registrations services: Onamae.com, MuuMuu Domain, and VALUE-DOMAIN</li> </ul>
	Hosting & Cloud	<ul style="list-style-type: none"> <li>• Provision, operation, management, and maintenance of shared, VPS, dedicated and cloud-based web hosting services including Onamae.com Rental Server, GMO AppsCloud, ConoHa by GMO, Z. com Cloud, GMO Cloud VPS, GMO Cloud Altus, GMO Cloud Private, KaKing, Lolipop, heteml, and 30days Album</li> </ul>
	Ecommerce Solutions	<ul style="list-style-type: none"> <li>• SaaS based services for online store building including Color me shop! and MakeShop.</li> <li>• Operation of C2C handmade marketplace, minne</li> <li>• Operation of ecommerce/O2O support services, etc.</li> <li>• Web design, operational support and system consulting, etc.</li> </ul>
	Security	<ul style="list-style-type: none"> <li>• DomainSSL, OrganizationSSL, and other SSL certificates, code signing certificates, PDF document signing, client certificates and other digital certificate services</li> </ul>
	Payment	<ul style="list-style-type: none"> <li>• PG Multi-Payment Service for mail order and ecommerce business, comprehensive payment processing services for the public sector, and finance-related service including early payment service, transaction lending, and GMO payment after delivery</li> </ul>
	Provider	<ul style="list-style-type: none"> <li>• GMO TokuToku BB and other Internet provider services.</li> </ul>
Online Advertising & Media	Online Advertising	<ul style="list-style-type: none"> <li>• Listing and mobile ad networks, reward advertising, affiliate 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, Smartphone apps including fashion sharing app, Coordisnap. Operation of daily deals website, Kumapon by GMO, and Ad distribution to own media</li> <li>• SEM Media: Operation and sales of JWord, Japanese keywords, 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 Finance	Internet Finance	<ul style="list-style-type: none"> <li>• Operation of online securities trading, FX trading services, etc.</li> </ul>
Cryptocurrency	Cryptocurrency exchange	<ul style="list-style-type: none"> <li>• Spot trading and leveraged transactions of cryptocurrency</li> </ul>
	Cryptocurrency mining	<ul style="list-style-type: none"> <li>• Mining of bitcoin and bitcoin cash, etc.</li> </ul>
Incubation	Venture Capital	<ul style="list-style-type: none"> <li>• Investment in private Internet startups.</li> </ul>

## (2) Consolidated Financial Condition

### Assets, Liabilities and Shareholders' Equity

#### Assets

As of September 30, 2018, total assets increased ¥32,383 million (4.3%) from December 31, 2017 to ¥781,543 million. Major factors included an increase of ¥13,314 million (11.2%) in cash and deposits, an increase of ¥7,777 million (89.8%) in tangible fixed assets, an increase of ¥4,931 million (42.5%) in investment securities, and a decrease of ¥7,671 million (1.6%) in various assets due to fluctuations in customer assets in the Finance segment, etc. (deposits, margin transaction assets, loan secured by securities, short term guarantee deposits, and variation margin paid).

#### Liabilities

As of September 30, 2018, liabilities decreased ¥21,577 million (3.2%) from December 31, 2017 to ¥696,383 million. Major factors included an increase of ¥17,476 million as a result of issuance of convertible bonds with equity warrants, etc. by GMO Payment Gateway, a consolidated subsidiary, an increase of ¥16,715 million (14.8%) in debt, and a decrease of ¥8,647 million (2.0%) in various liabilities due to fluctuations in customer assets in the Finance segment, etc. (deposits received, margin transaction liability, guarantees received, variation margin received, and debt secured by securities).

#### Net Assets

As of September 30, 2018, net assets increased ¥10,805 million (14.5%) from December 31, 2017 to ¥85,159 million. Major factors included an increase of ¥3,453 million (9.1%) in earned surplus (consisting mainly of an increase from recording profit attributable to owners of the parent totaling ¥6,149 million and a decrease from dividend payments of ¥2,094 million) and an increase of ¥5,949 million (19.5%) in non-controlling minority equity.

#### Cash Flow

As of September 30, 2018, cash and equivalents increased ¥13,377 million (11.4%) from December 31, 2017 to ¥131,195 million. The following is a summary of cash flow activity during the three months ended September 30, 2018.

#### Cash Flow from Operating Activities

Inflow from operating activities was ¥7,901 million (¥1,763 million of outflow in the previous corresponding term). Major components of inflow included net profit before adjustment for tax, etc. (¥17,088 million) and depreciation (¥5,785 million). Major components of outflow included an increase in various assets due to increased customer assets in the Internet Finance segment (¥976 million), a decrease in deposits received (¥5,161 million) and a decrease in trade payable (¥5,023 million).

#### Cash Flow from Investing Activities

Outflow from investing activities totaled ¥25,070 million (¥11,458 million of outflow in the previous corresponding term). Major components of outflow included acquisition of tangible fixed assets including mining equipment (¥20,628 million) and acquisition of intangible fixed assets (¥2,817 million).

#### Cash Flow from Financing Activities

Inflow from financing activities totaled ¥30,622 million (¥13,929 million of inflow in the previous corresponding term). Major components include outflow from dividend payments (¥2,094 million), and inflow from changes in short and long term debt to improve liquidity (¥16,715 million) and issuance of convertible bonds with equity warrants by GMO Payment Gateway, a consolidated subsidiary (¥17,437 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

GMO Click Global Markets, Inc. was newly established during the three months ended June 30, 2018 and added to the scope of consolidation. The company became a specified subsidiary as a result of capital increase during the three months ended September 30, 2018.

### (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 September 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 nine months ended September 30, 2017 was insignificant.

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

#### (1) Quarterly consolidated balance sheet

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2017)	3rd Quarter Current Fiscal Year (As of September 30, 2018)
<b>Assets</b>		
Current Assets		
Cash and deposits	119,006	132,321
Trade notes and accounts receivable	17,597	18,479
Operational investment securities	3,910	7,478
Cryptocurrency received	29,873	18,584
Securities segment deposits	286,848	267,917
Securities segment margin transaction assets	113,833	102,736
Securities segment loan secured by securities	—	7,721
Securities segment short term guarantee deposits	46,996	52,495
Securities segment variation margin paid	26,696	35,831
Deferred tax asset	3,114	5,720
Other	62,354	81,975
Provision for doubtful debts	-3,119	-2,612
<b>Total Current Assets</b>	<b>707,112</b>	<b>728,649</b>
Fixed Assets		
Tangible fixed assets	8,656	16,433
Intangible fixed assets		
Goodwill	2,310	2,050
Software	5,140	5,671
Other	12,956	13,667
<b>Total intangible fixed assets</b>	<b>20,407</b>	<b>21,389</b>
Investments and other assets		
Investment securities	7,701	9,065
Deferred tax asset	2,402	941
Other	3,245	5,543
Provision for doubtful debts	-366	-480
<b>Total investments and other assets</b>	<b>12,983</b>	<b>15,069</b>
<b>Total Fixed Assets</b>	<b>42,047</b>	<b>52,893</b>
<b>Total Assets</b>	<b>749,160</b>	<b>781,543</b>

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2017)	3rd Quarter Current Fiscal Year (As of September 30, 2018)
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Trade notes and accounts payable	8,672	9,399
Short term debt	90,910	100,351
Amount payable	25,980	27,280
Cryptocurrency received	29,873	18,584
Securities segment deposits received	54,729	46,988
Securities segment margin transaction liability	48,639	45,958
Securities segment guarantees received	294,916	295,769
Securities segment variation margin received	4,095	3,283
Securities segment debt secured by securities	22,782	24,515
Accrued corporate tax, etc.	2,107	4,760
Allowance for bonuses	1,034	1,872
Allowance for bonuses to directors	44	773
Advance payment received	7,191	8,118
Deposits received	47,462	42,301
Other	7,900	11,073
<b>Total Current Liabilities</b>	<b>646,343</b>	<b>641,032</b>
<b>Fixed Liabilities</b>		
Convertible bonds with equity warrants	—	17,476
Long term debt	21,745	29,020
Deferred tax liability	367	2,025
Other	4,445	5,164
<b>Total Fixed Liabilities</b>	<b>26,559</b>	<b>53,686</b>
<b>Statutory Reserve</b>		
Financial instruments transaction liability reserve	1,903	1,664
<b>Total Statutory Reserve</b>	<b>1,903</b>	<b>1,664</b>
<b>Total Liabilities</b>	<b>674,805</b>	<b>696,383</b>
<b>Net Assets</b>		
<b>Shareholders' Equity</b>		
Capital stock	5,000	5,000
Earned surplus	38,113	41,566
Treasury stock	-23	-16
<b>Total Shareholders' Equity</b>	<b>43,089</b>	<b>46,549</b>
<b>Accumulated Other Comprehensive Income</b>		
Other securities valuation differences	284	1,647
Hedging profit/loss carried forward	—	6
Foreign currency translation account	323	346
<b>Total Accumulated Other Comprehensive Income</b>	<b>608</b>	<b>2,001</b>
Equity Warrants	73	76
Non-controlling Interests	30,582	36,532
<b>Total Net Assets</b>	<b>74,354</b>	<b>85,159</b>
<b>Total Liabilities and Net Assets</b>	<b>749,160</b>	<b>781,543</b>

## (2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statement of income  
3rd Quarter (cumulative)

(Unit: ¥millions)

	3rd Quarter Previous Fiscal Year (9 months to Sep 2017)	3rd Quarter Current Fiscal Year (9 months to Sep 2018)
Net Sales	112,409	137,164
Cost of Sales	57,810	69,201
Gross Profit on Sales	54,599	67,963
Sales, General & Administrative Expenses	42,609	50,645
Operating Profit	11,989	17,318
Non Operating Revenue		
Dividends received	63	307
Other	267	336
Total Non-Operating Revenue	331	644
Non Operating Expenses		
Interest paid	119	230
Commissions paid	30	131
Equity method investment losses	291	503
Loss on currency translation	—	277
Other	111	311
Total Non-Operating Expenses	553	1,453
Ordinary Profit	11,768	16,509
Extraordinary Profit		
Gain on sale of investment securities	8	735
Reversal of financial instruments transaction liability reserve	208	238
Other	179	119
Total Extraordinary Profit	396	1,093
Extraordinary Loss		
Loss on valuation of investment securities	162	135
Impairment loss	246	242
Loss on change in equity	186	—
Other	472	135
Total Extraordinary Loss	1,068	514
Net Profit before Adjustment for Tax etc.	11,096	17,088
Corporate, Municipal and Enterprise Taxes	5,604	6,645
Corporate Tax etc. Adjustment	-965	-125
Total Corporate Taxes etc.	4,638	6,520
Net Profit	6,458	10,568
Profit attributable to Non-controlling Interests	2,673	4,419
Profit attributable to Owners of the Parent	3,784	6,149



Quarterly consolidated statement of comprehensive income  
3rd Quarter (cumulative)

(Unit: ¥millions)

	3rd Quarter Previous Fiscal Year (9 months to Sep 2017)	3rd Quarter Current Fiscal Year (9 months to Sep 2018)
Net Profit	6,458	10,568
Other Comprehensive Income		
Other securities valuation differences	-121	4,140
Hedging profit/loss carried forward	-62	6
Currency translation adjustment account	-29	121
Share of other comprehensive income of entities accounted for using equity method	222	29
Total other comprehensive income	8	4,297
Comprehensive Income	6,467	14,866
(Breakdown)		
Comprehensive income attributable to owners of the parent	3,676	7,542
Comprehensive income attributable to non-controlling interests	2,790	7,324

## (3) Consolidated statement of cash flows

(Unit: ¥millions)

	3rd Quarter Previous Fiscal Year (9 months to Sep 2017)	3rd Quarter Current Fiscal Year (9 months to Sep 2018)
<b>Cash Flow from Operating Activities</b>		
Net profit before adjustment for tax etc.	11,096	17,088
Depreciation expenses	3,709	5,785
Impairment loss	246	242
Amortization of goodwill	612	450
Gain and loss on change in equity (-represents gain)	186	—
Interest paid	119	230
Gain and loss on sale of investment securities (-represents gain)	-9	-735
Insurance income	-170	-31
Information security countermeasure cost	255	48
Change in trade receivable (-represents increase)	250	-31
Change in provision for doubtful debts(- represents decrease)	1,761	-391
Change in trade payable (- represents decrease)	-8,203	-5,023
Change in other payable (- represents decrease)	-267	1,243
Change in deposits received (- represents decrease)	960	-5,161
Change in deposits in securities segment, etc. (- represents increase)	-22,927	18,931
Change in short term guarantee deposits in securities segment, etc. (-represents increase)	-3,020	-5,499
Change in margin variation paid and received in securities segment, etc.	-3,461	-9,947
Changes in deposits and guarantees received in securities segment, etc. (- represents decrease)	24,431	-6,887
Changes in margin trading assets and liabilities in securities segment, etc.	-13,572	8,415
Changes in debt secured by securities in securities segment, etc. (- represents decrease)	15,422	1,732
Changes in loan secured by securities in securities segment, etc. (- represents increase)	—	-7,721
Other	-5,984	-553
Sub total	1,436	12,185
Interest and dividends received	93	483
Interest paid	-347	-483
Payment of information security countermeasure cost	-200	-46
Corporate tax etc. paid	-2,745	-4,237
<b>Cash Flow from Operating Activities</b>	<b>-1,763</b>	<b>7,901</b>
<b>Cash Flow from Investing Activities</b>		
Expenditure on payment of fixed term deposit	-3,949	-170
Return of fixed term deposit	1,601	875
Expenditure on acquisition of tangible fixed assets	-1,368	-20,628
Expenditure on acquisition of intangible fixed assets	-7,361	-2,817
Expenditure on acquisition of investment securities	-414	-397
Income accrued on the sale of investment securities	15	774
Expenditure on origination of loans receivable	-2	-1,809
Expenditure on purchase of shares of subsidiaries resulting in change in scope of consolidation	-24	-69
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	20	—
Other	24	-828
<b>Cash Flow from Investing Activities</b>	<b>-11,458</b>	<b>-25,070</b>

	3rd Quarter Previous Fiscal Year (9 months to Sep 2017)	3rd Quarter Current Fiscal Year (9 months to Sep 2018)
<b>Cash Flow from Financing Activities</b>		
Net increase or decrease in short term debt (- represents decrease)	12,750	947
Income accrued on long term debt	9,083	17,066
Expenditure on repayment of long term debt	-2,969	-1,298
Proceeds from issuance of convertible bonds with equity warrants	—	17,510
Expenditure on issuance of convertible bonds with equity warrants	—	-72
Proceeds from sale and lease back	—	980
Repayment of installment obligations and lease obligations	-1,363	-1,315
Payment received from partners in investment funds	375	1,069
Expenditure on repayment to partners in investment funds	-202	-1,004
Revenue accrued from non-controlling interests	169	128
Acquisition of treasury stock	-1,182	—
Payment of dividends	-1,971	-2,094
Payment of dividends to non-controlling interests	-747	-963
Expenditure on acquisition of subsidiary stock without change in scope of consolidation	-17	—
Other	5	-330
<b>Cash Flow from Financing Activities</b>	<b>13,929</b>	<b>30,622</b>
Currency Translation Adjustment on Cash and Equivalents	249	-75
<b>Change in Cash and Equivalents (- represents decrease)</b>	<b>956</b>	<b>13,377</b>
Balance of Cash and Equivalents at Beginning of Term	90,125	117,817
Increase in Cash and Equivalents following Increase in Consolidation	1	—
<b>Balance of Cash and Equivalents at End of Term</b>	<b>91,083</b>	<b>131,195</b>

(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 September 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 nine months ended September 30, 2017 was insignificant.

(Segment Information)

I 3rd Quarter of Previous Fiscal Year (01.01.2017-09.30.2017)

1. Information relating to net sales and profit or 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	60,787	30,011	19,403	-108	661	110,755	1,653	—	112,409
Internal transactions	472	3,278	5	—	—	3,756	107	-3,863	—
Total	61,260	33,290	19,408	-108	661	114,512	1,760	-3,863	112,409
Segment Profit/Loss	5,975	736	5,927	-327	285	12,597	-661	53	11,989

\*Notes

- i. "Other" represents mobile entertainment, culture incubation and other businesses not included in reportable segments.
- ii. Segment Profit/Loss adjustment (¥53 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. Information on impairment of fixed assets and goodwill by reportable segment  
(Significant impairment loss of fixed assets)

“Other” segment recorded impairment loss of fixed assets. The amount of impairment loss recorded for the nine months ended September 30, 2017 was ¥192 million.

II 3rd Quarter of Current Fiscal Year (01.01.2018-09.30.2018)

1. Information relating to net sales and profit or 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	73,206	31,508	23,248	5,868	2,306	136,139	1,025	—	137,164
Internal transactions	472	3,237	-42	43	—	3,711	106	-3,818	—
Total	73,679	34,746	23,206	5,912	2,306	139,850	1,132	-3,818	137,164
Segment Profit/Loss	8,284	436	8,495	-375	1,438	18,278	-1,010	50	17,318

\*Notes

- i. “Other” represents mobile entertainment, culture incubation and other businesses not included in reportable segments.
- ii. Segment Profit/Loss adjustment (¥50 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 nine months ended September 30, 2017 is presented under the new segmentation.

3. Information on impairment of fixed assets and goodwill by reportable segment  
(Significant impairment loss of fixed assets)

“Internet Infrastructure” segment recorded impairment loss of fixed assets. The amount of impairment loss recorded for the nine months ended September 30, 2018 was ¥242 million.

(Significant subsequent event)

(Sale of significant subsidiary's shares)

GMO Internet has resolved to sell a part of its shareholdings in its consolidated subsidiary GMO Financial Holdings, Inc. ("GMO Financial HD"). We will still hold over 50% of the total voting rights of GMO Financial HD after the transaction, and therefore, there will be no change in subsidiaries as a result of the transaction.

The outline of the transaction is as follows:

1. Details of secondary offering of subsidiary's shares
  - (1) Class and number of shares to be offered: GMO Financial HD; Common stock; 22,027,100 shares (18.4% of total voting rights)
  - (2) Selling price: ¥786 per share
  - (3) Method of offering: Offering by way of purchase and subscription by underwriters
  - (4) Delivery date: October 12, 2018
  - (5) Ownership ratio after the offering: 61.9%
2. Purpose of the offering

GMO Financial HD has been trying to improve the distribution and liquidity of its common stock. GMO Internet will sell a part of its shareholdings in GMO Financial HD to respond to the company's request for secondary offering with the aim of solving these issues.
3. Impact on consolidated earnings

Since GMO Financial HD will still be our consolidated subsidiary, although capital surplus will change, the transaction will not have any impact on the consolidated results.