August 14, 2008

# Summary of Interim Financial Results for the Fiscal Year Ending December 31, 2008

Name of listed company: **GMO Hosting & Security, Inc.** Exchange: Mothers of the Tokyo Stock Exchange
Code: 3788 URL: http://www.gmo-hs.com/
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(Amounts rounded down to the nearest one million yen)

## 1. Consolidated Financial Results for the Interim Period (from January 1, 2008 to June 30, 2008)

(1) Consolidated results of operations (Percentages represent year-over-year changes)

| | Sales | | Operating profit | | Ordinary profit | | Net profit | |
|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| June 2008 | 3,581 | 6.1 | 482 | (12.8) | 468 | (19.9) | 158 | (48.4) |
| June 2007 | 3,375 | 25.5 | 552 | (19.7) | 584 | (15.6) | 307 | (25.5) |
| December 2007 | 6,742 | - | 943 | - | 812 | - | 371 | - |

| | Net profit per share | Diluted net profit per share |
|---|---|---|
| | Yen | Yen |
| June 2008 | 1,363.52 | 1,360.17 |
| June 2007 | 2,652.28 | 2,634.96 |
| December 2007 | 3,195.82 | 3,177.52 |

Reference: Equity in earnings of affiliates (million yen) Jun. 2008: - Jun. 2007: - Dec. 2007 -

(2) Consolidated financial conditions

| | Total assets | Net assets | Shareholders' equity ratio | Shareholders' equity per share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| June 2008 | 5,725 | 3,550 | 60.8 | 29,911.74 |
| June 2007 | 5,759 | 3,512 | 59.3 | 29,365.08 |
| December 2007 | 5,775 | 3,661 | 61.7 | 30,647.27 |

Reference: Shareholders' equity (million yen) Jun. 2008: 3,481 Jun. 2007: 3,413 Dec. 2007 3,564

(3) Consolidated cash flow position

| | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Closing balance of cash and cash equivalents |
|---|---|---|---|---|
| | Million yen | Million yen | Million yen | Million yen |
| June 2008 | 378 | (447) | (260) | 2,052 |
| June 2007 | 531 | (303) | (436) | 2,384 |
| December 2007 | 783 | (693) | (440) | 2,345 |

## 2. Dividends

| | Dividends per share | | |
|---|---|---|---|
| (Record date) | Interim | Yearend | Annual |
| | Yen | Yen | Yen |
| December 2007 | 0.00 | 2,180.00 | 2,180.00 |
| December 2008 | 0.00 | - | 1,600.00 |
| December 2008 (forecast) | - | 1,600.00 | |

## 3. Projections of Consolidated Business Results (from January 1, 2008 to December 31, 2008)

(Percentages represent year-over-year changes)

| | Sales | | Operating profit | | Ordinary profit | | Net profit | | Net profit per share |
|---|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Full year | 8,062 | 19.6 | 1,096 | 16.2 | 1,083 | 33.4 | 530 | 43.0 | 4,561.81 |

**4. Other**

(1) Important changes of subsidiaries during the term (change of specified subsidiaries that lead to a change in the scope of consolidation): None

(2) Changes in accounting principles, procedures and presentation method, etc. of interim consolidated financial statements (those which are included in change in significant accounting policies that will be the bases for preparing interim consolidated financial statements)

1) Changes associated with the revision of accounting principles, etc.: None

2) Changes other than 1): None

(3) Number of shares issued (common stock)

1) Number of shares issued at the end of the term (including treasury stock)

Jun. 2008: 116,390 shares Jun. 2007: 116,230 shares Dec. 2007 116,310 shares

2) Number of treasury stock at the end of the term

Jun. 2008: - shares Jun. 2007: - shares Dec. 2007 - shares

Note: Please refer to “Per Share Information” on page 39 for the number of shares used in calculating consolidated net profit per share.

**(Reference) Summary of Non-consolidated Results**

**1. Non-consolidated Financial Results for the Interim Period (from January 1, 2008 to June 30, 2008)**

(1) Non-consolidated results of operations (Percentages represent year-over-year changes)

| | Sales | | Operating profit | | Ordinary profit | | Net profit | |
|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| June 2008 | 2,652 | 4.9 | 549 | (2.7) | 583 | (4.6) | 313 | (17.4) |
| June 2007 | 2,528 | 11.8 | 564 | (9.3) | 611 | (2.3) | 379 | 3.8 |
| December 2007 | 5,129 | - | 1,103 | - | 1,118 | - | 670 | - |

| | Net profit per share |
|---|---|
| | Yen |
| June 2008 | 2,692.79 |
| June 2007 | 3,269.74 |
| December 2007 | 5,773.15 |

(2) Non-consolidated financial conditions

| | Total assets | Net assets | Shareholders’ equity ratio | Shareholders’ equity per share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| June 2008 | 5,504 | 3,786 | 68.8 | 32,533.01 |
| June 2007 | 5,170 | 3,434 | 66.4 | 29,545.38 |
| December 2007 | 5,386 | 3,726 | 69.2 | 32,039.56 |

Reference: Shareholders’ equity (million yen) Jun. 2008: 3,786 Jun. 2007: 3,434 Dec. 2007 3,726

**2. Projections of Non-consolidated Business Results (from January 1, 2008 to December 31, 2008)**

(Percentages represent year-over-year changes)

| | Sales | | Operating profit | | Ordinary profit | | Net profit | | Net profit per share |
|---|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Full year | 5,594 | 9.1 | 1,067 | (3.3) | 1,101 | (1.5) | 652 | (2.7) | 5,608.90 |

**<u>* Explanation about the proper use of financial projections and other important notes</u>**

The above projections are based on information currently available and involve significant uncertainties. Actual results may differ materially from the above stated projections due to changes in business conditions and other factors.

Please see “1. Results of Operations, (1) Analysis of Results of Operations” on page 3 for details about the above projections.

## 1. Results of Operations

### (1) Analysis of Results of Operations

1) Results of operations for the current interim period

The outlook for the Japanese economy became increasingly uncertain in the interim period under review due to global financial uncertainty and the negative impact of rising prices, due to surging crude oil and materials prices, on consumer sentiment.

The Internet services market in which the GMO Hosting & Security (hereafter "GMO-HS") Group operates saw Internet penetration among corporations reach 98.0%, and broadband penetration reach 74.6% according to *2008 White Paper Information and Communications in Japan*, and Internet usage has become more diverse and sophisticated. Also, the spread of the Internet has increased demand for Internet security services and IT outsourcing services. The IT outsourcing services market is forecast to steadily expand going forward, increasing at an annualized pace of 6.3% in 2006-2012, and reaching 3.2847 trillion yen in 2012 according to Yano Research Institute.

In this business environment, the Group launched high-end dedicated "managed hosing services" in the hosting business to meet rising IT outsourcing demand, under the catchphrase of "bringing smiles to both sides of the Internet."

In the securities business, the Group focused on expanding its structure for selling proprietary GlobalSign digital certificate services around the world, and developed and launched a variety of "world's first" services leveraging its strength as a service provider that runs its own certification authority.

Consolidated interim sales increased 6.1% year-over-year to 3,581 million yen, operating profit declined 12.8% to 482 million yen, and ordinary profit declined 19.9% to 468 million yen.

Net profit declined 48.4% to 158 million yen as the Group booked 82 million yen in penalty for cancellation of derivative currency swap contract in the first quarter as an extraordinary loss.

Reference: Consolidated quarterly sales/operating profit (Thousands of yen)

| | 2Q Fiscal 2007 (Apr. – Jun. 2007) | 3Q Fiscal 2007 (Jul. – Sep. 2007) | 4Q Fiscal 2007 (Oct. – Dec. 2007) | 1Q Fiscal 2008 (Jan. – Mar. 2008) | 2Q Fiscal 2008 (Apr. – Jun. 2008) |
|---|---|---|---|---|---|
| Sales | 1,700,449 | 1,658,413 | 1,708,120 | 1,780,039 | 1,801,383 |
| Operating profit | 220,063 | 212,771 | 178,014 | 292,520 | 189,525 |

Results of operations by business segment are discussed below.

Hosting Business

With the hosting services market increasingly requiring servers capable of storing massive amounts of data, the Group boosted the amount of storage space available for its shared hosting, virtual private server hosting, and dedicated hosting services.

In the shared hosting services, the Group upgraded its core shared hosting services to include functions such as junk mail filtering. In addition, its well-regarded hosting service for businesses, iCLUSTA, guaranteeing server availability of 99.99%, became the first hosting service to be certified under new guidelines governing disclosure of security and reliability among ASP and SaaS (Software as a Service) providers (Note 1).

In the dedicated hosting services, the Group created a diverse lineup of services including trouble detection and began to offer managed hosting services to help clients outsource the tasks they wish to (Note 2).

Consolidated sales in the hosting business increased 5.6% year-over-year to 2,991 million yen, while operating profit rose 3.9% to 618 million yen. Cumulative hosting service contracts totaled approximately 117,000.

Note 1: Introduced in 2008, certification indicates that an ASP or SaaS provider has submitted adequate information about the security and reliability of its services under rules outlined by the Foundation for Multimedia Communications (FMMC). These rules are based on the *Guidelines for Information Disclosure Concerning ASP/SaaS Security and Reliability* issued by the Ministry of Internal Affairs and Communications in November 2007 to encourage the spread of ASP and SaaS services in Japan.

Note 2: Managed hosting services: the Group holds root authority (administrator level authority on Unix-based operating system which permits unlimited access to files) in order to manage and operate dedicated servers on behalf of clients. This allows the client to significantly reduce system setup and operating and management costs that would normally include several millions of yen to set up a server and more than a million yen each month to maintain (for comparison: managed hosting service server setup charge: 500,000 yen to 1,000,000 yen; monthly operation and maintenance fees: 200,000 yen to 500,000 yen). The managed server can also be used as a platform to provide SaaS. The Group provides *System Operation: Full Outsourcing Service* customized for each client that include services they would like outsourced, but it also offers prepackaged managed hosting solutions involving *Surveillance/Trouble Detection, Server Configuration*, and *Hot Standby Administration Packages*.

Reference:

1) Trend in cumulative hosting services contracts

| | 2Q Fiscal 2007 (Jun. 30, 2007) | 3Q Fiscal 2007 (Sep. 30, 2007) | 4Q Fiscal 2007 (Dec. 31, 2007) | 1Q Fiscal 2008 (Mar. 31, 2008) | 2Q Fiscal 2008 (Jun. 30, 2008) |
|---|---|---|---|---|---|
| Shared hosting services | 54,909 | 55,718 | 56,139 | 56,918 | 58,072 |
| Virtual private server (VPS) hosting services | 3,848 | 4,049 | 4,202 | 4,410 | 4,487 |
| Dedicated hosting services | 3,563 | 3,712 | 3,841 | 4,025 | 4,111 |
| OEM | 53,727 | 53,175 | 53,134 | 53,132 | 50,833 |
| Total | 116,047 | 116,654 | 117,316 | 118,485 | 117,503 |

2) Trend in cumulative hosting services sales (Thousands of yen)

| | 2Q Fiscal 2007 (Apr. – Jun. 2007) | 3Q Fiscal 2007 (Jul. – Sep. 2007) | 4Q Fiscal 2007 (Oct. – Dec. 2007) | 1Q Fiscal 2008 (Jan. – Mar. 2008) | 2Q Fiscal 2008 (Apr. – Jun. 2008) |
|---|---|---|---|---|---|
| Shared hosting services | 580,105 | 577,167 | 579,857 | 577,902 | 594,053 |
| Virtual private server (VPS) hosting services | 166,364 | 176,131 | 178,357 | 183,791 | 185,353 |
| Dedicated hosting services | 436,701 | 437,505 | 443,960 | 460,950 | 474,061 |
| OEM | 251,675 | 250,674 | 254,508 | 255,324 | 245,321 |
| Other | 12,913 | 4,723 | 5,772 | 7,340 | 7,001 |
| Total | 1,447,760 | 1,446,203 | 1,462,456 | 1,485,310 | 1,505,792 |

Securities Business

To further bolster its global sales network for digital certificate services sold under company brand GlobalSign, the Group established the subsidiary GlobalSign China (Shanghai) in February 2008, supplementing its existing offices in Europe, Japan and the U.S.

The Group also developed a variety of “world’s first” services to bolster its activities as a certification authority. It became the first to launch services such as *Skip Application* (the Group issues SSL server certificates without requiring the customer to generate a private key and certificate signing request), *OneClick SSL* (SSL server certificates are installed within a few minutes of ordering online), and *Onamae.com x GlobalSign SSL Server Certificate Service* (partnership between domain registrar and certificate authority leading to almost instantaneous issuance of SSL server certificates). The Group also began providing its “Document Sign Digital ID Service for Adobe CDS,” offering PDF certification services compliant with Adobe System’s Adobe® Certified Document Services (CDS) program.

Domestic sales of SSL server certificates were firm, but overseas sales were lower than projected due to delays in launches of new services and expansion of sales channels. Consolidated sales in the securities business rose 2.2% year-over-year to 551 million yen, but the Group booked an operating loss of 127 million yen.

Other

The GMO-HS Group established Global Web Co., Ltd. (Japan) in a joint venture with Global Web. Co., Ltd. (Korea) in March 2007 to launch website production services, electronic catalog services, and speed translation services.

Consolidated sales in this segment were 38 million yen, and operating loss 3 million yen.

2) Forecasts for the fiscal year

In the hosting business, sales are trending slightly below the Group's initial projections, while operating profit is trending above initial projections. The Group will continue to focus on the managed hosting services business, projected to expand over the medium to long term, and will work to standardize and improve the operational efficiency of existing services to achieve scale merits through large-scale management.

In the securities business, sales and operating profit are trending below projections, but the Group will continue to promote its new services around the world, diversify marketing methods, and secure sales bases in emerging markets, to quickly establish a solid marketing structure.

The Group maintains the full-year consolidated forecasts for the fiscal year ending December 31, 2008 that it announced on February 14, 2008, and will continue to monitor progress.

**(2) Analysis of Financial Position**

1) Assets

The balance of assets at the end of the current interim period was 5,725 million yen, down 33 million yen from the end of the previous interim period. The main factors behind the decline were the acquisition of fixed assets due to capital equipment investments, depreciation of fixed assets and goodwill amortization.

2) Liabilities

The balance of liabilities at the end of the current interim period was 2,175 million yen, down 71 million yen from the end of the previous interim period. The main factor behind the decline was a decline in accrued corporate taxes.

3) Net assets

The balance of net assets at the end of the current interim period was 3,550 million yen, up 38 million yen from the end of the previous interim period. The main factors behind the increase were an increase in capital stock and capital reserves from the exercise of stock options, and an increase in foreign currency translation adjustment account.

4) Cash flows

Cash and cash equivalents (hereafter 'cash flows') at the end of the current interim period totaled 2,052 million yen, down 292 million yen from the start of the fiscal year. Trends in cash flows by activity are described below.

Operating cash flows

Cash flows from operating activities in the current interim period were 378 million yen. Negative factors included the payment of 267 million yen in corporate taxes, while positive factors included the booking of 389 million yen in net profit before taxes and adjustments due to firm business.

Investing cash flows

Cash flows used in investing activities in the current interim period were 447 million yen. The main factors were 48 million yen in outlays for the acquisition of a company in the hosting business, now a consolidated subsidiary, and 372 million yen in outlays for the acquisition of tangible and intangible fixed assets.

Financing cash flows

Cash flows used in financing activities in the current interim period were 260 million yen. Positive factors included 2 million yen in income from the issue of stock, while negative factors included 251 million yen in dividend payments.

Cash flow indices

| | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 | Interim Fiscal 2008 |
|---|---|---|---|---|
| Shareholders' equity ratio (%) | 63.9 | 57.8 | 61.7 | 60.8 |
| Shareholders' equity ratio based on market cap (%) | 2,095.9 | 317.7 | 155.1 | 162.6 |
| Interest-bearing debt to cash flow ratio | - | 0.11 | 0.12 | 0.22 |
| Interest coverage ratio | - | 4,417.31 | 159.18 | 210.23 |

Notes: 1. The above figures are calculated as follows.
Shareholders' equity ratio: Shareholders' equity / Total assets
Shareholders' equity ratio based on market cap: Market capitalization / Total assets
Interest-bearing debt to cash flow ratio: Interest-bearing debt / Cash flows
Interest coverage ratio: Cash flows / Interest payments
2. All indices are calculated based on consolidated figures.
3. For Fiscal 2005, the interest-bearing debt to cash flow ratio, and interest coverage ratio, are not presented since we had no interest-bearing debt balance or interest payments.

**(3) Basic Policy on Profit Distributions; Dividends for the Current Fiscal Year**

GMO-HS's policy regarding profit distributions is to continuously provide stable dividends over the long term while also enhancing internal reserves to strengthen the corporate structure and prepare for future business expansion. One target benchmark is a payout ratio (against consolidated net profit) of over 35%.

For the 16th fiscal term, the Company plans a yearend dividend of 1,600 yen per share based on this dividend policy.

**(4) Business and Other Risks**

Various risks could materially impact the GMO-HS Group's earnings going forward. Below we discuss some potential risk factors to the Group's business operations. We have also included items that we believe are important for investors to know about the Group, from a disclosure standpoint, before making investment decisions, but are not necessarily risk factors to the business. By recognizing potential risks, we will work to prevent their occurrence and prepare an appropriate response in the event that they do occur. Nevertheless, any investment decision regarding our stock should be made after careful consideration of all the risk factors delineated below and other relevant items in this report.

1) Risks related to the GMO-HS Group's relationship with its parent company

(a) Risks related to the GMO-HS Group's positioning within the GMO Internet Group

The GMO-HS Group is a part of the corporate GMO Internet Group which centers on the parent company GMO Internet, Inc. GMO Internet owned 51.3% of the outstanding stock of GMO-HS at the end of June 2008. The GMO Internet Group operates two business segments under the corporate slogan "Internet for Everyone": Internet Use Support (Internet Infrastructure), and Internet Advertising Support (Internet Media). The GMO-HS Group is in charge of web hosting and Internet security services classified in the Internet Use Support (Internet Infrastructure) segment, and its position within the GMO Internet Group has remained fundamentally unchanged since joining the group in May 2001. The GMO-HS Group is responsible for providing the technological foundation of hosting services, selling hosting services under its proprietary brand, and providing hosting services to the GMO Internet Group on an OEM basis. However, a change in the GMO Internet Group's basic policy toward the GMO-HS Group could impact the Group's business and earnings.

(b) Risks related to business with the GMO Internet Group

The GMO-HS Group's consolidated sales to GMO Internet, Inc. totaled 438 million yen in interim Fiscal 2007 (representing 13.0% of the GMO-HS Group's consolidated sales), and 454 million yen in interim Fiscal 2008 (12.7%). A change in GMO Internet's business strategy, management policy, earnings performance, or financial condition, could impact the Group's business and earnings.

GMO-HS does not own data centers, but it pays several Internet data center (IDC) companies for housing services and Internet connection services to operate servers for the hosting business. GMO-HS paid IDCs 321 million yen in interim Fiscal 2008, and 219 million yen of this, or 68.3%, was paid to GMO Internet.

'Housing services' refers to the provision of rack space with Internet connections, and 'Internet connection services' refers to enabling GMO-HS to operate servers via the Internet by connecting IDC-owned network connection equipment (from backbone routers to upper-end connection equipment) to L2 switches (see note) operated by GMO-HS.

Housing and Internet connection services are essential to the GMO-HS Group's hosting business, but the Group's business and earnings could be impacted if it were no longer able to use GMO Internet's data centers because of a change in that company's business strategy or management policy.

Note: An L2 (layer 2) switch is an intermediate piece of networking equipment that decodes link layer 2 (hence 'layer 2') data and decides whether to forward packets to lower-end servers or upper-end backbone routers.

See the table below for monetary transactions between GMO-HS and the GMO Internet Group in interim Fiscal 2008. Note that small monetary transactions between the groups of less than 10 million yen have been omitted.

<table>
<tr><td colspan="2">Type of related party</td><td colspan="3">Parent company</td><td>Sister company, etc.</td></tr>
<tr><td colspan="2">Company name</td><td colspan="3">GMO Internet, Inc.</td><td>paperboy&co.</td></tr>
<tr><td colspan="2">Location</td><td colspan="3">Shibuya-ku, Tokyo</td><td>Shibuya-ku, Tokyo</td></tr>
<tr><td colspan="2">Capital (Thousands of yen)</td><td colspan="3">1,276,834</td><td>74,453</td></tr>
<tr><td colspan="2">Business</td><td colspan="3">Integrated Internet business</td><td>Web hosting for non-corporate customers</td></tr>
<tr><td colspan="2">Voting rights</td><td colspan="3">Directly own 51.3% of GMO-HS stock</td><td>-</td></tr>
<tr><td rowspan="2">Relationship</td><td>Directors, etc.</td><td colspan="3">3 concurrent directors</td><td>-</td></tr>
<tr><td>Business</td><td colspan="3">Sales, procurement, leasing, etc.</td><td>Sales</td></tr>
<tr><td colspan="2">Business transactions</td><td>Sales of GMO-HS's hosting services (Note 2)</td><td>Payments for equipment rental and use of facilities</td><td>Payments for leases and outsourced services (Note 2)</td><td>Sales of GMO-HS's hosting services (Note 2)</td></tr>
<tr><td colspan="2">Transaction amount (Thousands of yen)</td><td>445,342</td><td>295,204</td><td>76,359</td><td>27,910</td></tr>
<tr><td colspan="2">Account title</td><td>Accounts receivable -trade</td><td>Accounts payable -trade</td><td>Accounts payable -other</td><td>Accounts receivable -trade</td></tr>
<tr><td colspan="2">Term-end balance (Thousands of yen)</td><td>73,685</td><td>2,352</td><td>53,395</td><td>4,306</td></tr>
</table>

Notes: 1. Consumption tax has not been included in the above transaction amounts, but has been included in term-end balances.

2. Transaction conditions and policies regarding transaction conditions
Transaction decisions are made following negotiations after a comprehensive review of the size of the transaction and other factors, as is the case with transactions with companies unrelated to GMO-HS.

(c) Risks related to concurrent directorships between GMO-HS and GMO Internet, Inc.

| Name | Position within GMO-HS | Position within GMO Internet |
|---|---|---|
| Mitsuru Aoyama | President & CEO | Director (Part-time) |
| Masatoshi Kumagai | Representative Director (Part-time) | CEO & Representative Director |
| Masashi Yasuda | Director (Part-time) | Senior Managing Director |

GMO-HS has invited two directors from GMO Internet to serve as part-time board directors to obtain business advice, and the GMO Internet has invited GMO-HS's president and CEO to serve as a part-time board director to offer business advice.

2) Risks related to the GMO-HS Group's businesses

(a) Risks related to overdependence on one specific business

The hosting services, the GMO-HS Group's mainstay business, accounted for 83.9% of consolidated sales in interim Fiscal 2007, and 83.5% of consolidated sales in interim Fiscal 2008. The Group expects an increase in Internet security service sales to reduce the ratio of hosting service sales. However, there is no guarantee that the ratio of hosting service sales will decline, and the Group could remain dependent on this one specific business. The Group's business and earnings could be impacted were it to remain dependent on the hosting business, and were its business to lose competitiveness in the rapidly evolving hosting services industry.

(b) Risks from competition

i) Risks related to the hosting business

The hosting market in which the GMO-HS Group operates is highly competitive and crowded with many players because of few large barriers to entry. The Group strives to provide stable, high-quality hosting services at reasonable prices, and has increased subscribers as a result of these efforts. However, greater competition with regards to technology development and pricing could impact the Group's business and earnings.

ii) Risks related to the securities business

The digital certification market in which the GMO-HS Group operates is a growth market, but first movers enjoy the highest market shares. The GMO-HS Group is expanding its share of the server certification market after launching its security services business in May 2003 by differentiating itself from the competition by providing server certificates quickly and at low prices. The Group also began selling proprietary server certificates following its purchase of a foreign Certification Practice in October 2006. However, a decline in market share or lower sales prices from intensified competition could impact the Group's business and earnings.

(c) Risks related to industry trends

The GMO-HS Group offers hosting services, which refers to the renting out of servers with functions including website launching, e-mail, and applications, that are fully connected to the Internet, primarily targeting small, medium, and SOHO businesses. The Group also offers security services (digital certification services), centered on the issue of SSL server certificates, which ensure the safe transmission of confidential information by verification of web server common names and encryption of communication data through SSL encryption. Penetration of the Internet, penetration of broadband, and expansion of the e-commerce market, are essential for the Group's services to broadly penetrate the market. Currently, broadband users continue to grow, as does the size of the e-commerce market, but the future prospects of the market are somewhat uncertain given the Internet industry's short history. The Group's business and earnings could be impacted if Internet users and the size of the e-commerce market fails to steadily expand in line with the Group's expectations due to various factors including the introduction of laws to regulate the Internet given a lack of firm trust in the Internet by users.

(d) Risks involving foreign exchange rate volatility

The GMO-HS Group engages in derivatives trading and foreign currency money management to hedge risk from foreign exchange rate volatility because it carries out foreign currency-denominated transactions for some sales transactions and investments and loans made to overseas consolidated subsidiaries. However, a change in foreign exchange rates due to global economic changes could impact the Group's business and earnings.

(e) Risks related to laws and regulations

The GMO-HS Group operates within the Internet industry, which in Japan is regulated primarily by the Telecommunications Business Law. GMO-HS reported its position as a telecommunications firm to the Ministry of Internal Affairs and Communications, and it could receive a business improvement order from the Minister, and/or incur penalties, were it to violate relevant laws and regulations, and this could impact its business and earnings. Also, as an Electronic Communications Service Provider, GMO-HS is subject to the “Law Concerning Limitation of Damages to Electronic Communications Service Providers and Disclosure of Sender Information.” This law places limitations on the responsibilities of Electronic Communications Service Providers, and clarifies rights and obligations concerning disclosure about originators of information. It is difficult for GMO-HS to make judgments regarding how it should respond to requests for disclosure concerning originators of information, and GMO-HS could incur administrative guidance, complaints, demands for compensation, and/or warnings from users, other affiliated parties, and administrative institutions, if its judgment were inappropriate, and this could impact its business and earnings. Also, discussions concerning laws and regulations governing the Internet and e-commerce are ongoing, and laws and regulations targeting Internet users, related services, and relevant businesses, could be enacted to clarify existing laws and regulations, and the Internet industry could adopt voluntary rules to govern itself, all of which could restrict the Group’s business.

(f) Risks related to intellectual property rights

i) Risks related to intellectual property rights

The GMO-HS Group examines as necessary the submission of Patent Law applications to protect proprietary technologies and business models, and of the several patent applications submitted by GlobalSign K.K. to date, one patent regarding a method for issuing digital certificates has been approved. The Group also examines as necessary the submission of applications to register trademarks for service names and other names in need of Trademark Law protection. The Group is currently of the understanding that it is not in violation of the intellectual property rights of other companies, but it is difficult for the Group to completely grasp the status of its businesses’ use of other companies’ intellectual property, and the Group cannot negate the possibility that it might be infringing upon the intellectual property rights of other companies. Also, a third party that newly acquires intellectual property rights could claim damages or issue an injunction against the Group, and this could impact the Group’s business and earnings.

ii) Risks related to the mainstay service brand “iSLE”

GMO-HS has used the mainstay brand name “iSLE” - in both Japanese and English letters - since it launched its hosting business in May 1996. GMO-HS applied to have the name “iSLE” (in Japanese letters) approved as a trademark in August 2000 for some business domains, and the name was registered in February 2002. GMO-HS also applied to have the name “iSLE” (English letters) approved as a trademark in December 2004, and the name was registered as a trademark from July 2005 to September 2007.

(g) Risks regarding management of private information and possibility of leaks

As it stores personal information, credit card data, and other such private information, the GMO-HS Group is obliged to comply with the provisions of the Protection of Personal Information Act, which applies to companies that handle personal information. The Group has implemented an organizational framework on both hardware and software fronts that allows it to continuously maintain strict control over the use of personal information within the organization, by limiting access to this personal information to certain employees, controlling the passwords that allow access to this personal information, and by keeping detailed logs of any activity involving access to its information database. The Group is working proactively to ensure that personal information is protected by using advanced security technology, maintaining an operational guideline handbook, and requiring all of its employees to undergo training addressing the protection of personal information. GMO-HS and its subsidiaries GlobalSign K.K. (formerly GeoTrust Japan, Inc.; corporate name changed in May 2007) and Mighty Server, Inc. received the ISO/ISE27001:2005 and JIS Q 27001:2006 certifications governing information security and management in November 2006. The Group is making its best efforts to maintain and improve its information management infrastructure, but a system outage or the leak of client information, private information, or other data which causes the Group to lose the trust of its customers or suffer damage to its corporate reputation, could impact its business and earnings.

(h) Risks involving systems trouble

i) Risks related to the hosting business

The GMO-HS Group is obliged to provide reliable, year-round (24/7) access to its servers as part of its hosting service activities. For a particular number of customers, the Group has instituted an SLA (Service Level Agreement). To this end, the Group employs servers in reliable data centers in Japan, the U.S., and Asia and maintains around-the-clock (24-hours a day) surveillance over the servers. However, as the Group's services depend on telecommunications networks, network failures from natural disasters or accidents, server overload caused by sudden spikes in user access, network disruption caused by computer virus damage, or software problems, could render it impossible for users to connect with GMO-HS's servers. In the event that GMO-HS is found to be responsible for the access failure, direct compensation in the form of refunds or other such indemnities which GMO-HS might be obliged to pay, or the loss of confidence in its services by customers, could impact the Group's business and earnings.

ii) Risks related to the securities business

- Risks related to system trouble

The GMO-HS Group's security services rely on system infrastructure provided by GlobalSign K.K. and GlobalSign NV, as well as by the VeriSign, Inc. group, each of which could contain some kind of unanticipated system defect or bug. The GMO-HS Group and VeriSign check these systems and adjust them on an ongoing basis, but there is no guarantee that these systems will be fail-proof, and the Group could suffer the loss of trust of its customers or be obliged to pay out compensation because of system glitches or problems. As part of providing its security services, the Group is obliged to provide reliable, year-round (24/7) access to its servers and is dependent on the telecommunications network. A disruption of the Group's services due to network failures caused by natural disasters or accidents, sudden spikes in access leading to denial of service by the Group's or local Internet Service Provider's (ISP) servers, or computer virus damage, could impact the Group's business and earnings.

Regarding service guarantees and other matters, the Group has outlined its obligations and disclaimers in its Certificated Practice Statement and Subscriber Agreement. However, there is no guarantee that these statements and agreements can or will be recognized in legal proceedings or otherwise, and the Group's business and earnings could be impacted.

- Risks related to Certification Practice management

The GMO-HS Group has entrusted the management of the Certification Practice systems of GlobalSign NV to Ubizen NV (currently NV VerizonBelgium Luxembourg SA), and the services are carried out based on a Certificate Management Services Agreement and Service Level Agreement concluded between the Group and Ubizen NV. The Group closely collaborates and regularly meets with Ubizen NV to monitor outsourced operations, and is examining whether the Group can transfer these operations within the Group. However, the Group's business and earnings could be impacted by an early termination of the contract because of a change in Ubizen NV's business policy or for some other reason, failure to maintain the contract for some reason, problems in the level of services provided by the firm or in the firm's level of technology, or management problems experienced by the firm.

- Risks related to compromise of the private keys of Certification Practices

The GMO-HS Group uses hardware security modules (see Note 1) to manage the private keys of route CA certificates for the Certification Practice of GlobalSign NV, and manages the keys using strict standards to ensure proper administration. However, the Group's business and earnings could be impacted if for some reason the private keys of route CA certificates were to be compromised, thereby impairing trust in the GlobalSign brand.

Note 1: A hardware security module is an anti-tamper device (the private keys are automatically deleted or made difficult to remove even if the device is physically tampered with) that safely preserves and stores in hardware the private keys that are used for digital signatures and codes.

(i) Risks related to technological innovation

In the Internet industry in which the GMO-HS Group operates, the speed at which technology on both hardware and software fronts advances and evolves is extraordinary, and new technologies and new services are constantly being created. The Group is continuously working to develop new services and improve existing ones by developing new technologies through its own research and also through close-knit partnerships with its alliance partners. However, the Group's competitiveness vis-à-vis its competitors could drop if the services that it offers are rendered obsolete by unforeseen technological developments or innovative services. This drop in competitiveness, combined with the need for additional outlays to respond to the advent of such new technologies or services, could impact the Group's business and earnings.

3) Risks related to the GMO-HS Group's organizational structure

(a) Risks related to overdependence on CEO

The President and CEO of GMO-HS, Mitsuru Aoyama, exerts considerable influence over the Group's management vision and objectives and the framing of business strategy based on these elements, but also over the planning and promotion of the company's medium-term business plan and new businesses which it seeks to enter. As the GMO-HS Group's business activities continue to expand, the Group is proceeding with organizational improvements such as the transfer of authority to other individuals, to prevent overdependence on the President and CEO. However, the Group's business and earnings could be impacted if the President and CEO were unable to continue to fulfill his duties for some reason.

(b) Risks related to establishing a management framework to deal with expansion of group-related businesses

As of the end of December 2008, the GMO-HS Group has 10 directors (7 board members, 3 auditors) and 235 employees (temporary workers not included) on a consolidated basis and maintains an organizational framework able to manage the internal affairs of a company this size. However, as a still-growing enterprise, the Company is pursuing adjustments to its internal management structure in order to handle expansion in its activities as well as an increase in the number of employees, and plans to continue to reinforce its management structure going forward. However, the Group's business and earnings could be impacted if efforts to build a new organizational framework do not progress as expected and the Group becomes unable to successfully manage an increase in the number of its employees.

(c) Risks related to securing and developing human resources

In order for the GMO-HS Group to grow its businesses, it will need to attract exceptionally qualified personnel and assist them with their professional development if they are to assist in the development of new businesses within the Group and to help ensure that the Group is able to respond to rapidly-evolving technological innovation. However, within the Internet industry, demand for such employees who have the requisite specialized knowledge, skills, and/or business experience is high, and the Group may not be able to secure sufficient additional manpower for its new businesses or could face higher than expected hiring costs due to competition for workers. Such developments could impact the Group's business and earnings.

4) Risks involving the GMO-HS Group's relationships with its business partners

(a) Risks related to the GMO-HS Group's relationship with Verio, Inc.

i) Nature of the GMO-HS Group's relationship with Verio, Inc.

Verio, Inc. (headquarters based in the U.S.) holds 4.0% of all outstanding shares in GMO-HS as of the end of June 2008. The company is an Internet Services Provider (ISP) and also offers security services, web hosting, packaged e-commerce services and other web-based solutions for companies. Its hosting services, in particular, have a global customer base, and the company offers data center services for customers with large-scale hosting needs.

Verio is a wholly-owned consolidated subsidiary of NTT Communications (as of the end of March 2008).

ii) Risks related to the GMO-HS Group's dependence on Verio, Inc.

The GMO-HS Group offers a variety of name-branded hosting services, including low-cost, high-quality web hosting using proprietary technology under the "iSLE" brand name, and global hosting services under the Verio "RapidSite" brand. The Group has concluded an Amended and Restated Premier Partner Agreement with Verio, which acts as an OEM supplier, that allows the Group to offer the "RapidSite" brand's shared hosting services or virtual private server (VPS) services. The Group has continued operating while maintaining close ties with Verio. However, the Group's business and earnings could be impacted by any of the following reasons: Verio or parent company NTT Communications deciding as a matter of company policy or for some other reason to end its close partnership with the Group, thereby canceling the partnership agreement or allowing it to expire unrenewed; Verio revising the agreement in a way disadvantageous to GMO-HS; problems arising with the quality of service, brand name, or level of technology provided by Verio; or management problems at Verio.

iii) Risks related to the GMO-HS Group's business dealings with Verio, Inc.

For interim Fiscal 2008, GMO-HS contracted with Verio for hosting services amounting to 148 million yen. The Amended and Restated Premier Partner Agreement concluded with Verio stipulates a minimum payment for services. Presently, the Group, after careful review of the agreement, believes that it is financially able to purchase services in excess of the minimum amount outlined in the contract. However, a drop in sales or other reasons leading to an unexpectedly sharp decline in the Group's purchase of Verio's hosting services could impact the Group's business and earnings.

iv) Risks related to the GMO-HS Group's personal connections with Verio, Inc.

The Group has no personal connections with Verio, Inc. as of the submission of this report.

(b) Risks related to the GMO-HS Group's relationship with the VeriSign, Inc. Group

i) Nature of the GMO-HS Group's relationship with VeriSign, Inc.

The GMO-HS Group's GlobalSign K.K. (Japan) concluded an Exclusive Distributor Agreement with GeoTrust, Inc. (U.S.) in March 2003 allowing it to issue GeoTrust-branded digital certificates as an authorized reseller in Japan, Korea, Taiwan, Singapore and other areas. After GeoTrust, Inc. was purchased by VeriSign in September 2006, the GMO-HS Group sought to build a new partnership with VeriSign, and decided to end its Exclusive Distributor Agreement and conclude a new VeriSign Reseller Program Agreement in August 2007 allowing it to sell VeriSign and VeriSign group company (including GeoTrust) products worldwide.

The GMO-HS Group has continued operating while maintaining close ties with VeriSign. However, the Group's business and earnings could be impacted by any of the following reasons: VeriSign deciding as a matter of company policy or for some other reason to end its close partnership with the Group, thereby canceling the partnership agreement or allowing it to expire unrenewed; VeriSign revising the agreement in a way disadvantageous to GMO-HS; problems arising with the quality of service, brand name or level of technology provided by VeriSign; or management problems at VeriSign.

ii) Risks related to the GMO-HS Group's business dealings with the VeriSign Group

For interim Fiscal 2008, the GMO-HS Group had contracted with the VeriSign Group to offer digital certificate services amounting to 15 million yen. A new VeriSign Reseller Program Agreement with VeriSign stipulates a minimum level of payment for services. Presently the Group, after careful review of the agreement, believes that it is financially able to purchase services in excess of the minimum amount outlined in the contract. However, a drop in sales or other reasons leading to an unexpectedly sharp decline in the Group's purchases of VeriSign's digital certificates could impact the Group's business and earnings.

iii) Risks related to the GMO-HS Group's personal connections with the VeriSign Group

The Group has no personal connections with the VeriSign Group as of the submission of this report.

5) Risks involving other matters

(a) Risks related to dilution resulting from the exercise of stock options or other instruments

In an effort to improve the morale of its directors and employees and also to facilitate the hiring of new employees, GMO-HS has issued stock acquisition rights to its directors and employees, in accordance with Article 280-20 and Article 280-21 of the former Commercial Code of Japan. At the time this document was submitted, the rights provided for purchase of 590 shares, which amounts to 0.5% of the 116,390 shares issued and outstanding. In order to continue to maintain the morale of its directors and employees and attract new employees, GMO-HS may also in the future offer stock acquisition rights in the form of stock options. Should these rights be exercised, the per-share value of each stock would be diluted.

(b) Risks related to M&A activities and strategic partnerships

The GMO-HS Group is considering new lines of business and new services in the future, and is actively seeking out strategic partnerships, including capital tie-ups, and possible targets for merger or acquisition (M&A) as options for speeding up the expansion of the Group’s activities.

When deciding on candidates for M&A or strategic partnerships, the Group intends to scrutinize risks by undertaking due diligence regarding such matters as the M&A target company’s financial condition or contract details in the case of a partnership. However, the business and earnings of the Group could be impacted by any of the following reasons related to M&A or strategic partnerships: accrual of contingent liabilities or unrecognized liabilities uncovered after the purchase of the company which due diligence failed to identify; delays in integrating the management, operations, regulations and organization of the Group’s businesses with that of the acquired company or the company chosen as a strategic partner; the loss of key personnel in the event of a merger or acquisition; a failure to achieve the anticipated synergies with the merger target or partner; or other similar reasons.

(c) Risks related to establishment of subsidiaries

The GMO-HS Group established GlobalSign, Inc. in New Hampshire (US) in July 2007, and established GlobalSign China (Shanghai) in February 2008.

The Group intends to develop its business across the globe, including Japan, but its business and earnings could be impacted if earnings at new local subsidiaries failed to grow in line with plans.

(d) Risks related to expansion of the GMO-HS Group’s activities

The GMO-HS Group is working actively to bring new growth to its businesses, with expansion centered primarily around its core hosting and security services. It expects to do so through such methods as capital investment and investment in developing technologies, setting up subsidiaries or group-related companies, seeking new investment and funding, or tie-ups with other companies. The Group expects an increase in expenditures related to human and material resources and other costs. In the event that the expansion of the Group’s activities does not proceed as expected, the Group might be unable to achieve its earnings targets with only costs and time being consumed. Such a situation could impact the Group’s business and earnings.

**2. Corporate Group**

The GMO Hosting & Security Group ("GMO-HS Group") consists of GMO Hosting & Security, Inc. (the "Company"), its parent company GMO Internet Inc., and nine subsidiaries, whose activities center around providing hosting services and securities services.

The Group's activities are outlined below:

Hosting Business: Providing shared, dedicated or VPS hosting services, as well as associated software applications.

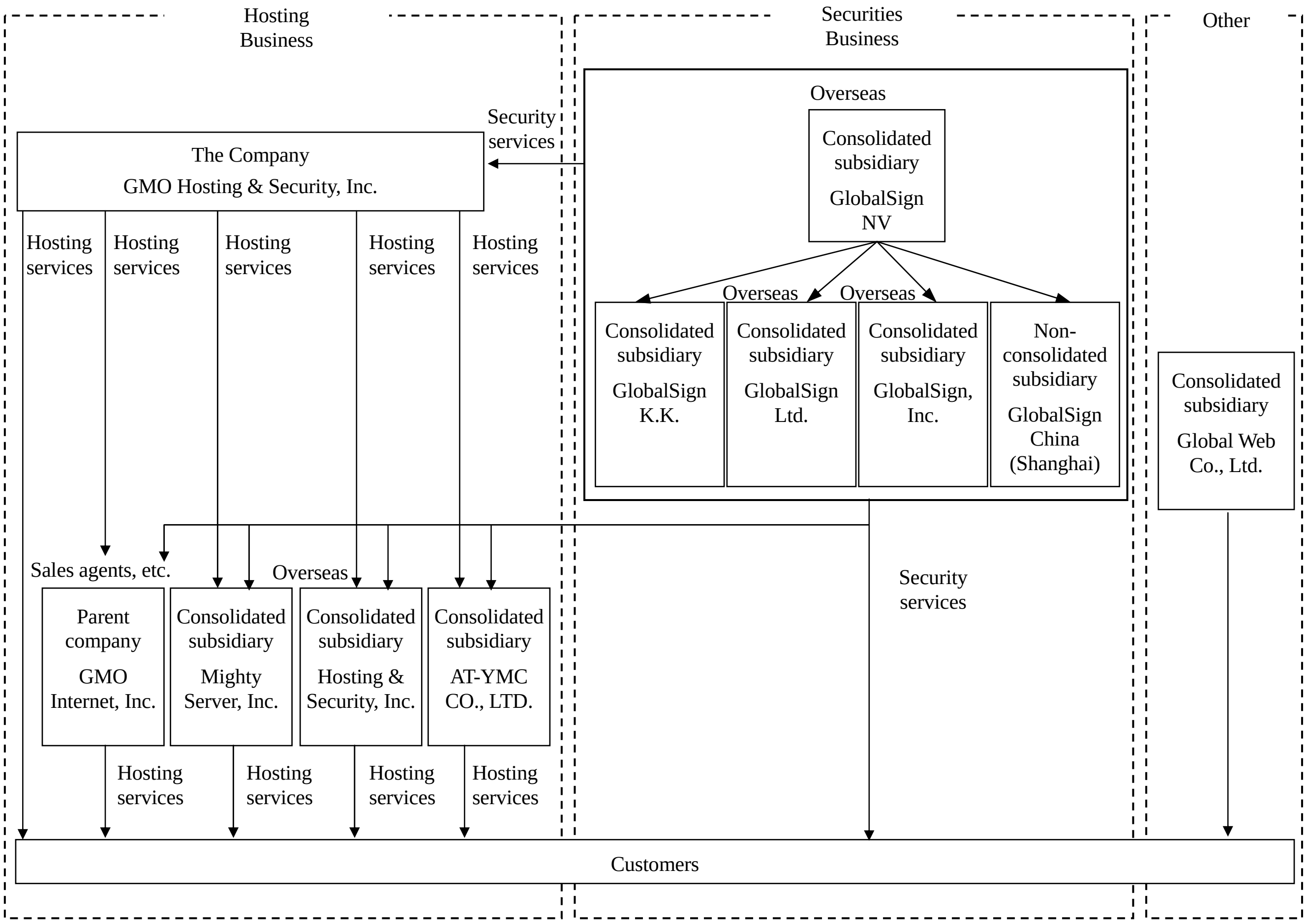
Securities Business: Providing digital certificate services, including SSL server certificates.

Other: Website production services, electronic catalog services, translation services.

Also, the parent company GMO Internet, under the slogan "Internet for Everyone," operates the Internet Use Support (Infrastructure) Business and the Internet Advertising Support (Internet Media) Business.

The Company offers hosting, security and other services as part of the GMO Internet Group's Internet Use Support Business.

Business flow chart



Affiliate companies

| Company names | Locations | Capital | Main businesses | Voting rights (%) | | Relationship with GMO-HS |
|---|---|---|---|---|---|---|
| | | | | Own | Owned | |
| (Parent company) | | | | | | |
| GMO Internet, Inc. (Note 2) | Shibuya-ku, Tokyo | (Thousands of yen) 12,631,977 | Integrated Internet business | - | 51.3 | Sales of GMO-HS's hosting services; 3 concurrent directors. |
| (Consolidated subsidiary) | | | | | | |
| Hosting & Security, Inc. | California, USA | (US dollars) 304,400 | Hosting business | 51.2 | - | Sales of GMO-HS's hosting services. |
| GlobalSign K.K. (Note 3) | Shibuya-ku, Tokyo | (Thousands of yen) 356,640 | Securities business | 89.8 | - | GMO-HS sell GlobalSign K.K.'s securities services; 4 concurrent directors. |
| AT-YMC CO., LTD. | Shimonoseki-shi, Yamaguchi | (Thousands of yen) 43,000 | Hosting business | 100 | - | Sales of GMO-HS's hosting services; 3 concurrent directors. |
| Mighty Server, Inc. | Shibuya-ku, Tokyo | (Thousands of yen) 15,000 | Hosting business | 100 | - | Sales of GMO-HS's hosting services; 3 concurrent directors. |
| GlobalSign Ltd. (Note 4) | Kent, UK | (Pounds) 100 | Securities business | 89.8 (100) | - | 2 concurrent directors |
| GlobalSign NV (Notes 3,4) | Leuven, Belgium | (Euros) 2,454,349.89 | Securities business | 89.8 (100) | - | 2 concurrent directors |
| Global Web Co., Ltd. | Shibuya-ku, Tokyo | (Thousands of yen) 30,000 | Other | 70.0 | - | 3 concurrent directors |
| GlobalSign, Inc. (Notes 3,4) | New Hampshire, USA | (US dollars) 750,000 | Securities business | 89.8 (100) | - | 2 concurrent directors |
| (Non-consolidated subsidiary) | | | | | | |
| GlobalSign China (Shanghai) | Shanghai, China | (US dollars) 133,000 | Securities business | 85.3 (95.0) | - | 2 concurrent directors |

Notes: 1. The "Main businesses" column lists the activities of the consolidated subsidiaries, according to segment.
2. The company is listed on the Tokyo Stock Exchange and submits Annual Securities Report.
3. The company is a specified subsidiary.
4. The number in parentheses indicates percentage ownership of GlobalSign K.K.

### 3. Management Policy

We omit the (1) Fundamental management policy, (2) Targeted performance indicators (3) Medium to long-term business strategy and (4) Challenges sections, as we have made no material changes to the content we disclosed in our recent financial results for the fiscal year ended December 31, 2007 (released February 14, 2008).

Please link to the following pages for our recent financial results.

Our Website:

http://www.gmo-hs.com/eng/pdf/summary200712.pdf

Tokyo Stock Exchange website (company search):

http://www.tse.or.jp/disc/37880/200802140577-420e1220.pdf (Japanese only)

## 4. Interim Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Thousands of yen)

| | | Interim Fiscal 2007 (As of Jun. 30, 2007) | | | Interim Fiscal 2008 (As of Jun. 30, 2008) | | | YoY change | Fiscal 2007 Summary (As of Dec. 31, 2007) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Category | Notes | Amount | | % | Amount | | % | Amount | Amount | | % |
| **(Assets)** | | | | | | | | | | | |
| I Current assets | | | | | | | | | | | |
| 1. Cash and deposits | *1 | | 2,424,550 | | | 2,092,995 | | | | 2,385,337 | |
| 2. Accounts receivable -trade | | | 526,708 | | | 519,349 | | | | 525,943 | |
| 3. Other | | | 344,133 | | | 366,648 | | | | 355,325 | |
| Allowance for doubtful debts | | | (23,052) | | | (24,326) | | | | (21,919) | |
| Total current assets | | | 3,272,340 | 56.8 | | 2,954,667 | 51.6 | (317,673) | | 3,244,687 | 56.2 |
| II Fixed assets | | | | | | | | | | | |
| 1. Tangible fixed assets | *2 | | | | | | | | | | |
| (1) Tools and equipment | | 290,814 | | | 297,391 | | | | 286,135 | | |
| (2) Other | | 661 | | | 5,574 | | | | 610 | | |
| Total tangible fixed assets | | | 291,475 | 5.1 | | 302,965 | 5.3 | 11,490 | | 286,745 | 5.0 |
| 2. Intangible fixed assets | | | | | | | | | | | |
| (1) Software | | 340,060 | | | 787,876 | | | | 446,346 | | |
| (2) Goodwill | | 1,223,293 | | | 990,057 | | | | 1,083,792 | | |
| (3) Other | | 4,001 | | | 6,481 | | | | 4,687 | | |
| Total intangible fixed assets | | | 1,567,355 | 27.2 | | 1,784,415 | 31.2 | 217,060 | | 1,534,826 | 26.5 |
| 3. Investments and other assets | | | | | | | | | | | |
| (1) Long-term prepaid expenses | | 516,383 | | | 423,153 | | | | 469,182 | | |
| (2) Other | | 111,686 | | | 260,448 | | | | 239,605 | | |
| Total investments and other assets | | | 628,069 | 10.9 | | 683,601 | 11.9 | 55,531 | | 708,788 | 12.3 |
| Total fixed assets | | | 2,486,900 | 43.2 | | 2,770,983 | 48.4 | 284,082 | | 2,530,360 | 43.8 |
| Total assets | | | 5,759,240 | 100.0 | | 5,725,650 | 100.0 | (33,590) | | 5,775,048 | 100.0 |

(Thousands of yen)

| | | Interim Fiscal 2007 (As of Jun. 30, 2007) | | Interim Fiscal 2008 (As of Jun. 30, 2008) | | YoY change | Fiscal 2007 Summary (As of Dec. 31, 2007) | |
|---|---|---|---|---|---|---|---|---|
| Category | Notes | Amount | % | Amount | % | Amount | Amount | % |
| **(Liabilities)** | | | | | | | | |
| I Current liabilities | | | | | | | | |
| 1. Accounts payable -trade | | 71,936 | | 108,503 | | | 124,057 | |
| 2. Accounts payable -other | | 282,091 | | 321,035 | | | 183,286 | |
| 3. Current portion of long-term debt | | 18,000 | | 24,000 | | | 24,000 | |
| 4. Advanced received | | 1,298,005 | | 1,380,325 | | | 1,289,855 | |
| 5. Accrued corporate taxes | | 389,740 | | 208,857 | | | 264,167 | |
| 6. Allowance for bonuses to directors | | 19,000 | | - | | | 2,300 | |
| 7. Other | | 86,346 | | 74,672 | | | 156,192 | |
| Total current liabilities | | 2,165,119 | 37.6 | 2,117,394 | 37.0 | (47,724) | 2,043,858 | 35.4 |
| II Long-term liabilities | | | | | | | | |
| 1. Long-term debt | | 82,000 | | 58,000 | | | 70,000 | |
| Total long-term liabilities | | 82,000 | 1.4 | 58,000 | 1.0 | (24,000) | 70,000 | 1.2 |
| Total liabilities | | 2,247,119 | 39.0 | 2,175,394 | 38.0 | (71,724) | 2,113,858 | 36.6 |
| **(Net assets)** | | | | | | | | |
| I Shareholders' equity | | | | | | | | |
| 1. Capital stock | | 904,650 | 15.7 | 907,450 | 15.9 | 2,800 | 906,050 | 15.7 |
| 2. Capital surplus | | 993,398 | 17.3 | 996,198 | 17.4 | 2,800 | 994,798 | 17.2 |
| 3. Earned surplus | | 1,534,109 | 26.6 | 1,502,706 | 26.2 | (31,402) | 1,597,650 | 27.7 |
| Total shareholders' equity | | 3,432,158 | 59.6 | 3,406,355 | 59.5 | (25,802) | 3,498,499 | 60.6 |
| II Valuation and translation adjustments | | | | | | | | |
| 1. Valuation difference on available-for-sale securities | | - | - | (2,961) | (0.1) | (2,961) | (475) | (0.0) |
| 2. Deferred gains (losses) on hedges | | 1,035 | 0.0 | - | - | (1,035) | - | - |
| 3. Foreign currency translation adjustment account | | (20,090) | (0.3) | 78,034 | 1.4 | 98,124 | 66,561 | 1.1 |
| Total valuation and translation adjustments | | (19,054) | (0.3) | 75,072 | 1.3 | 94,127 | 66,085 | 1.1 |
| III Minority interests | | 99,017 | 1.7 | 68,827 | 1.2 | (30,189) | 96,605 | 1.7 |
| Total net assets | | 3,512,121 | 61.0 | 3,550,255 | 62.0 | 38,134 | 3,661,189 | 63.4 |
| Total liabilities and net assets | | 5,759,240 | 100.0 | 5,725,650 | 100.0 | (33,590) | 5,775,048 | 100.0 |

## (2) Consolidated Profit and Loss Statement

(Thousands of yen)

| | | Interim Fiscal 2007 (Jan. 1 – Jun. 30, 2007) | | | Interim Fiscal 2008 (Jan. 1 – Jun. 30, 2008) | | | YoY change | Fiscal 2007 Summary (Jan. 1 – Dec. 31, 2007) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Category | Notes | Amount | | % | Amount | | % | Amount | Amount | | % |
| I Sales | | | 3,375,636 | 100.0 | | 3,581,423 | 100.0 | 205,786 | | 6,742,170 | 100.0 |
| II Cost of goods sold | | | 1,327,540 | 39.3 | | 1,505,339 | 42.0 | 177,798 | | 2,773,108 | 41.1 |
| Gross profit | | | 2,048,095 | 60.7 | | 2,076,083 | 58.0 | 27,987 | | 3,969,061 | 58.9 |
| III Sales and general administrative expenses | *1 | | 1,495,549 | 44.3 | | 1,594,036 | 44.5 | 98,487 | | 3,025,729 | 44.9 |
| Operating profit | | | 552,546 | 16.4 | | 482,046 | 13.5 | (70,500) | | 943,332 | 14.0 |
| IV Non-operating revenue | | | | | | | | | | | |
| 1. Interest income | | 8,605 | | | 3,327 | | | | 11,723 | | |
| 2. Foreign exchange gains | | 26,642 | | | - | | | | - | | |
| 3. Other | | 391 | 35,639 | 1.0 | 725 | 4,053 | 0.1 | (31,585) | 2,325 | 14,048 | 0.2 |
| V Non-operating expenses | | | | | | | | | | | |
| 1. Interest expense | | 2,673 | | | 1,769 | | | | 4,922 | | |
| 2. Foreign exchange losses | | - | | | 16,126 | | | | 137,108 | | |
| 3. Other | | 990 | 3,664 | 0.1 | 83 | 17,979 | 0.5 | 14,314 | 2,954 | 144,985 | 2.2 |
| Ordinary profit | | | 584,521 | 17.3 | | 468,120 | 13.1 | (116,401) | | 812,396 | 12.0 |
| VI Extraordinary profit | | | | | | | | | | | |
| 1. Gain on sale of investments in securities | | 42,903 | 42,903 | 1.3 | 7,782 | 7,782 | 0.2 | (35,120) | 42,903 | 42,903 | 0.6 |
| VII Extraordinary loss | | | | | | | | | | | |
| 1. Loss on retirement of fixed assets | *2 | 927 | | | 606 | | | | 955 | | |
| 2. Office relocation expenses | | 185 | | | 3,754 | | | | 171 | | |
| 3. Penalty for cancellation of derivative contract | | - | | | 82,206 | | | | - | | |
| 4. Loss on evaluation of investments in securities | | - | 1,113 | 0.0 | - | 86,567 | 2.4 | 85,454 | 9,388 | 10,515 | 0.1 |
| Net profit before taxes and adjustments | | | 626,311 | 18.6 | | 389,335 | 10.9 | (236,975) | | 844,783 | 12.5 |
| Income taxes -current | | 356,545 | | | 212,367 | | | | 527,858 | | |
| Income taxes -deferred | | (40,221) | 316,324 | 9.4 | 17,789 | 230,156 | 6.5 | (86,167) | (42,579) | 485,279 | 7.2 |
| Minority interests in profit/loss | | | (2,510) | (0.1) | | (566) | (0.0) | 1,944 | | 11,512 | 0.2 |
| Net profit | | | 307,476 | 9.1 | | 158,611 | 4.4 | (148,864) | | 371,017 | 5.5 |

### (3) Statement of Changes in Consolidated Shareholders' Equity

Interim Fiscal 2007 (Jan. 1 – Jun. 30, 2007)

(Thousands of yen)

| | Shareholders' equity | | | |
|---|---|---|---|---|
| | Capital stock | Capital surplus | Earned surplus | Total shareholders' equity |
| Balance as of Dec. 31, 2006 | 902,065 | 990,813 | 1,478,989 | 3,371,868 |
| Amount of change in the period | | | | |
| New stock issued | 2,585 | 2,585 | | 5,170 |
| Earned surplus dividend | | | (252,356) | (252,356) |
| Net profit | | | 307,476 | 307,476 |
| Total amount of change in the period in items other than shareholders' equity | | | | |
| Total amount of change in the period | 2,585 | 2,585 | 55,119 | 60,289 |
| Balance as of Jun. 30, 2007 | 904,650 | 993,398 | 1,534,109 | 3,432,158 |

(Thousands of yen)

| | Valuation and translation adjustments | | | | Minority interests | Total net assets |
|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains (losses) on hedges | Foreign currency translation adjustment account | Total valuation and translation adjustments | | |
| Balance as of Dec. 31, 2006 | 270 | 139 | (24,678) | (24,268) | 90,706 | 3,438,307 |
| Amount of change in the period | | | | | | |
| New stock issued | | | | | | 5,170 |
| Earned surplus dividend | | | | | | (252,356) |
| Net profit | | | | | | 307,476 |
| Total amount of change in the period in items other than shareholders' equity | (270) | 895 | 4,588 | 5,213 | 8,311 | 13,524 |
| Total amount of change in the period | (270) | 895 | 4,588 | 5,213 | 8,311 | 73,814 |
| Balance as of Jun. 30, 2007 | - | 1,035 | (20,090) | (19,054) | 99,017 | 3,512,121 |

Interim Fiscal 2008 (Jan. 1 – Jun. 30, 2008)

(Thousands of yen)

| | Shareholders' equity | | | |
|---|---|---|---|---|
| | Capital stock | Capital surplus | Earned surplus | Total shareholders' equity |
| Balance as of Dec. 31, 2007 | 906,050 | 994,798 | 1,597,650 | 3,498,499 |
| Amount of change in the period | | | | |
| New stock issued | 1,400 | 1,400 | | 2,800 |
| Earned surplus dividend | | | (253,555) | (253,555) |
| Net profit | | | 158,611 | 158,611 |
| Total amount of change in the period in items other than shareholders' equity | | | | - |
| Total amount of change in the period | 1,400 | 1,400 | (94,943) | (92,143) |
| Balance as of Jun. 30, 2008 | 907,450 | 996,198 | 1,502,706 | 3,406,355 |

(Thousands of yen)

| | Valuation and translation adjustments | | | Minority interests | Total net assets |
|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment account | Total valuation and translation adjustments | | |
| Balance as of Dec. 31, 2007 | (475) | 66,561 | 66,085 | 96,605 | 3,661,189 |
| Amount of change in the period | | | | | |
| New stock issued | | | | | 2,800 |
| Earned surplus dividend | | | | | (253,555) |
| Net profit | | | | | 158,611 |
| Total amount of change in the period in items other than shareholders' equity | (2,485) | 11,473 | 8,987 | (27,777) | (18,790) |
| Total amount of change in the period | (2,485) | 11,473 | 8,987 | (27,777) | (110,934) |
| Balance as of Jun. 30, 2008 | (2,961) | 78,034 | 75,072 | 68,827 | 3,550,255 |

Fiscal 2007 (Jan. 1 – Dec. 31, 2007)

(Thousands of yen)

| | Shareholders' equity | | | |
|---|---|---|---|---|
| | Capital stock | Capital surplus | Earned surplus | Total shareholders' equity |
| Balance as of Dec. 31, 2006 | 902,065 | 990,813 | 1,478,989 | 3,371,868 |
| Amount of change in the fiscal year | | | | |
| New stock issued | 3,985 | 3,985 | | 7,970 |
| Earned surplus dividend | | | (252,356) | (252,356) |
| Net profit | | | 371,017 | 371,017 |
| Total amount of change in the fiscal year in items other than shareholders' equity | | | | |
| Total amount of change in the fiscal year | 3,985 | 3,985 | 118,660 | 126,630 |
| Balance as of Dec. 31, 2007 | 906,050 | 994,798 | 1,597,650 | 3,498,499 |

(Thousands of yen)

| | Valuation and translation adjustments | | | | Minority interests | Total net assets |
|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains (losses) on hedges | Foreign currency translation adjustment account | Total valuation and translation adjustments | | |
| Balance as of Dec. 31, 2006 | 270 | 139 | (24,678) | (24,268) | 90,706 | 3,438,307 |
| Amount of change in the fiscal year | | | | | | |
| New stock issued | | | | | | 7,970 |
| Earned surplus dividend | | | | | | (252,356) |
| Net profit | | | | | | 371,017 |
| Total amount of change in the fiscal year in items other than shareholders' equity | (746) | (139) | 91,239 | 90,353 | 5,898 | 96,252 |
| Total amount of change in the fiscal year | (746) | (139) | 91,239 | 90,353 | 5,898 | 222,882 |
| Balance as of Dec. 31, 2007 | (475) | - | 66,561 | 66,085 | 96,605 | 3,661,189 |

**(4) Consolidated Cash Flow Statement**

(Thousands of yen)

| | | Interim Fiscal 2007 (Jan. 1 – Jun. 30, 2007) | Interim Fiscal 2008 (Jan. 1 – Jun. 30, 2008) | YoY change | Fiscal 2007 (Jan. 1 – Dec. 31, 2007) |
|---|---|---|---|---|---|
| Category | Notes | Amount | Amount | Amount | Amount |
| I Cash flow from operating activities | | | | | |
| Net profit before taxes and adjustments | | 626,311 | 389,335 | | 844,783 |
| Depreciation expenses | | 75,051 | 114,711 | | 197,412 |
| Amortization of goodwill | | 140,301 | 123,795 | | 280,802 |
| Increase in allowance for doubtful debts | | 19,904 | 2,407 | | 18,771 |
| Interest income | | (8,605) | (3,327) | | (11,723) |
| Interest expense | | 2,673 | 1,769 | | 4,922 |
| Stock issuance expenses | | 15 | 15 | | 60 |
| Foreign exchange losses (gains) | | 3,110 | (36,802) | | 47,420 |
| Loss on retirement of fixed assets | | 927 | 606 | | 955 |
| Gain on sale of investments in securities | | (42,903) | (7,782) | | (42,903) |
| Loss on evaluation of investments in securities | | - | - | | 9,388 |
| Penalty for cancellation of derivative contract | | - | 82,206 | | - |
| Decrease (increase) in accounts receivable -trade | | (69,779) | 6,594 | | (69,014) |
| Decrease (increase) in prepaid expenses | | 9,893 | 16,397 | | (8,028) |
| Decrease (increase) in other current assets | | 20,731 | (45,460) | | 23,969 |
| Decrease (increase) in long-term prepaid expenses | | 21,553 | 46,029 | | 68,753 |
| Increase (decrease) in accounts payable -trade | | (33,827) | (15,553) | | 18,294 |
| Increase (decrease) in accounts payable -other | | 46,573 | 22,017 | | (13,932) |
| Increase in advance received | | 117,794 | 90,470 | | 109,644 |
| Decrease in accrued consumption taxes | | (16,528) | (12,287) | | (17,530) |
| Increase (decrease) in other current liabilities | | 35,201 | (10,227) | | 36,658 |
| Decrease in allowance for bonuses to directors | | (18,000) | (2,300) | | (34,700) |
| Sub total | | 930,398 | 762,614 | (167,784) | 1,464,005 |
| Interest and dividends received | | 8,605 | 3,333 | | 11,669 |
| Interest paid | | (2,684) | (1,800) | | (4,914) |
| Penalty paid for cancellation of derivative contract | | - | (118,250) | | - |
| Corporate taxes paid | | (404,379) | (267,430) | | (687,171) |
| Cash flow from operating activities | | 531,941 | 378,467 | (153,474) | 783,589 |

| | | Interim Fiscal 2007 (Jan. 1 – Jun. 30, 2007) | Interim Fiscal 2008 (Jan. 1 – Jun. 30, 2008) | YoY change | Fiscal 2007 (Jan. 1 – Dec. 31, 2007) |
|---|---|---|---|---|---|
| Category | Notes | Amount | Amount | Amount | Amount |
| II Cash flow from investing activities | | | | | |
| Payments for acquisition of tangible fixed assets | | (65,484) | (45,737) | | (172,578) |
| Payments for acquisition of intangible fixed assets | | (160,663) | (327,041) | | (309,476) |
| Payments for acquisition of investments in securities | | (30,000) | - | | (32,500) |
| Proceeds from sale of investments in securities | | 52,536 | 7,782 | | 52,536 |
| Decrease (increase) in lease and guarantee deposits | | (1,962) | (26,461) | | (2,461) |
| Payments for long-term loans receivable | | - | - | | (135,750) |
| Proceeds from repayment of long-term loans receivable | | - | 18,492 | | 4,834 |
| Payments for acquisition of affiliate stock | | (97,089) | (25,569) | | (97,089) |
| Payments for acquisition of business | | - | (48,119) | | - |
| Payments for other investing activities | | (1,090) | (1,090) | | (1,090) |
| Cash flow from investing activities | | (303,753) | (447,745) | (143,991) | (693,575) |
| III Cash flow from financing activities | | | | | |
| Net decrease in short-term debt | | (200,000) | - | | (200,000) |
| Repayment of long-term debt | | - | (12,000) | | (6,000) |
| Proceeds from issue of stock | | 5,154 | 2,785 | | 7,909 |
| Proceeds from minority shareholders | | 9,000 | - | | 9,000 |
| Payment of dividends | | (250,170) | (251,779) | | (251,178) |
| Cash flow from financing activities | | (436,016) | (260,994) | 175,021 | (440,269) |
| IV Effect of exchange rate on cash and cash equivalents | | (2,275) | 37,931 | 40,206 | 100,938 |
| V Decrease in cash and cash equivalents | | (210,103) | (292,341) | (82,238) | (249,316) |
| VI Balance of cash and cash equivalents at the beginning of term | | 2,594,654 | 2,345,337 | (249,316) | 2,594,654 |
| VII Balance of cash and cash equivalents at the end of the term | * | 2,384,550 | 2,052,995 | (331,554) | 2,345,337 |

**Significant Items Concerning the Accounting Basis of the Interim Consolidated Financial Statements**

| Item | Interim Fiscal 2007<br>(Jan. 1 – Jun. 30, 2007) | Interim Fiscal 2008<br>(Jan. 1 – Jun. 30, 2008) | Fiscal 2007<br>(Jan. 1 – Dec. 31, 2007) |
|---|---|---|---|
| 1. Scope of the consolidation | 1) All subsidiaries are included in the consolidation.<br>Number of consolidated subsidiaries: 9<br>Name of the consolidated subsidiaries:<br>Hosting & Security, Inc.<br>GlobalSign K.K.<br>(GlobalSign K.K. was renamed from GeoTrust Japan, Inc. in May 2007)<br>Goovia Japan, Inc.<br>H&S Japan, Inc.<br>Mighty Server, Inc.<br>AT-YMC CO., LTD.<br>GlobalSign, Ltd.<br>(GlobalSign, Ltd. was renamed from Certification Services Ltd. in February 2007)<br>GlobalSign NV<br>Global Web Co., Ltd.<br>Global Web Co., Ltd. became consolidated subsidiary in March 1, 2007 due to its establishment. | 1) Number of consolidated subsidiaries: 8<br>Name of the consolidated subsidiaries:<br>Hosting & Security, Inc.<br>GlobalSign K.K.<br>Mighty Server, Inc.<br>AT-YMC CO., LTD.<br>GlobalSign, Ltd.<br>GlobalSign NV<br>Global Web Co., Ltd.<br>GlobalSign, Inc. | 1) All subsidiaries are included in the consolidation.<br>Number of consolidated subsidiaries: 8<br>Name of the consolidated subsidiaries:<br>Hosting & Security, Inc.<br>GlobalSign K.K.<br>(GlobalSign K.K. was renamed from GeoTrust Japan, Inc. in May 2007)<br>Mighty Server, Inc.<br>AT-YMC CO., LTD.<br>GlobalSign, Ltd.<br>(GlobalSign, Ltd. was renamed from Certification Services Ltd. in February 2007)<br>GlobalSign NV<br>Global Web Co., Ltd.<br>GlobalSign, Inc.<br>Global Web Co., Ltd. and GlobalSign, Inc. became consolidated subsidiaries in March 1, 2007 and July 1, 2007 respectively due to their establishments.<br>Goovia Japan, Inc. and H&S Japan, Inc., consolidated subsidiaries included in the consolidation in prior years, were liquidated in December 20, 2007 and December 19, 2007 respectively, and thus excluded from the scope of consolidation.<br>The consolidated profit and loss statement include the accounts of Goovia Japan, Inc. and H&S Japan, Inc. up to the date of completion of procedures for the liquidation. |
| | 2) ―――――― | 2) Name of the non-consolidated subsidiaries:<br>GlobalSign China (Shanghai)<br>(Reason for exclusion from the consolidation)<br>The non-consolidated subsidiary is excluded from the consolidation and the application of equity method, since the entity is small-scale business whose total assets, sales, net profit/loss, and earned surplus (equity in earnings) have no significant effect on the overall results of consolidated financial statements. | 2) ―――――― |

| Item | Interim Fiscal 2007<br>(Jan. 1 – Jun. 30, 2007) | Interim Fiscal 2008<br>(Jan. 1 – Jun. 30, 2008) | Fiscal 2007<br>(Jan. 1 – Dec. 31, 2007) |
|---|---|---|---|
| 2. Application of the equity method | Not applicable. | Same as on the left. | Same as on the left. |
| 3. Closing date of the consolidated subsidiaries | All consolidated subsidiaries' interim period end on the closing date for the interim consolidated financial statements. | Same as on the left. | All consolidated subsidiaries' fiscal year end on the closing date for the consolidated financial statements. |
| 4. Accounting standards<br>(1) Method and standards for the evaluation of assets | 1) Securities<br>―――<br><br>Available-for-sale securities<br>Securities with no market value:<br>Stated at cost determined by the moving average method.<br>2) Derivatives<br>Stated at market value method. | 1) Securities<br>Subsidiary stock<br>Stated at cost determined by the periodic average method.<br><br>Available-for-sale securities<br>Securities with no market value:<br>Same as on the left.<br>2) Derivatives<br>Same as on the left. | 1) Securities<br>―――<br><br>Available-for-sale securities<br>Securities with no market value:<br>Same as on the left.<br>2) Derivatives<br>Same as on the left. |
| (2) Depreciation of major depreciable assets | 1) Tangible fixed assets<br>The declining balance method (except buildings (excluding attached structures)) is used in the Company and its domestic subsidiaries, while the straight-line method is used in overseas subsidiaries.<br>Useful life of principal asset is as follows:<br>Tools and equipment: 2-6 years<br><br>2) Intangible fixed assets<br>Stated at the straight-line method.<br>Software used by the Company is amortized using the straight-line method over an estimated useful life of five years. | 1) Tangible fixed assets<br>Same as on the left.<br><br>2) Intangible fixed assets<br>Same as on the left. | 1) Tangible fixed assets<br>Same as on the left.<br><br>2) Intangible fixed assets<br>Same as on the left. |
| (3) The calculation of significant reserves | 1) Allowance for doubtful debt<br>The allowance for doubtful debt is a provision against loss resulting from bad debt occurring on loans sold. The allowance for general loans is calculated using a loan loss ratio. In cases where it is deemed that there is a high risk of default or in other specified circumstances, the loan is individually evaluated and the amount considered unlikely to be redeemed is reserved. | 1) Allowance for doubtful debt<br>Same as on the left. | 1) Allowance for doubtful debt<br>Same as on the left. |

| Item | Interim Fiscal 2007<br>(Jan. 1 – Jun. 30, 2007) | Interim Fiscal 2008<br>(Jan. 1 – Jun. 30, 2008) | Fiscal 2007<br>(Jan. 1 – Dec. 31, 2007) |
|---|---|---|---|
| | 2) Allowance for bonuses to directors<br>To provide for bonuses to directors, an allowance is reserved for estimated bonus obligations based on the interim performance.<br><br>Additional information:<br>The Company will book allowance for director bonuses based on the interim performance, starting from the current interim period, as the Company established internal rules for determining director bonuses making possible a rational estimate of the burden for the interim period.<br>The effect of this change was to increase sales and general administrative expenses by 19,000 thousand yen and decreases operating profit, ordinary profit and net profit before taxes and adjustments by 19,000 thousand yen, respectively. | 2) Allowance for bonuses to directors<br>To provide for bonuses to directors, an allowance is reserved for estimated bonus obligations based on the interim performance.<br>No allowance for bonuses to directors was booked in the interim period as the Company did not expect to pay such bonuses based on the interim performance. | 2) Allowance for bonuses to directors<br>To provide for bonuses to directors, an allowance is reserved for estimated bonus obligations. |
| (4) Translation of principal foreign currency-denominated assets and liabilities | Foreign currency-denominated monetary assets and liabilities are translated into yen at the exchange spot rate in effect on the balance sheet date. Translation gain or loss is accounted as profit or loss. The balance sheet and profit/loss accounts of overseas subsidiaries are also translated at the exchange spot rate in effect on the balance sheet dates. Translation adjustments are stated as a component of foreign currency translation adjustment account and minority interests in net assets. | Same as on the left. | Foreign currency-denominated monetary assets and liabilities are translated into yen at the exchange spot rate in effect on the balance sheet date. Translation gain or loss is accounted as profit or loss. The balance sheet and profit/loss accounts of overseas subsidiaries are also translated at the exchange spot rate in effect on the balance sheet dates. Translation adjustments are stated as a component of foreign currency translation adjustment account and minority interests in net assets. |
| (5) Lease transactions | Financing and lease transactions, other than those recognized as transferring property rights of a rental property to a lessee, are accounted for in the same manner as ordinary operating leases. | Same as on the left. | Same as on the left. |

| Item | Interim Fiscal 2007<br>(Jan. 1 – Jun. 30, 2007) | Interim Fiscal 2008<br>(Jan. 1 – Jun. 30, 2008) | Fiscal 2007<br>(Jan. 1 – Dec. 31, 2007) |
|---|---|---|---|
| (6) Hedge accounting | 1) Hedge accounting method<br>The deferred hedge accounting method is adopted.<br>2) Hedging instruments and hedged items<br>Hedging instruments: Currency swaps<br>Hedged items: Scheduled foreign currency-denominated transactions<br>3) Hedge policy<br>The Company uses financial derivative transactions to reduce its exposure to market risks from fluctuations in accordance with internal policies. The Company does not hold or issue financial derivative instruments for trading purposes.<br>4) Method of evaluating hedge effectiveness<br>The effectiveness of hedge items and instruments are evaluated on an individual basis at the end of each term. | ———— | 1) Hedge accounting method<br>Same as on the left.<br>2) Hedging instruments and hedged items<br>Same as on the left.<br>3) Hedge policy<br>The Company uses financial derivative transactions to reduce its exposure to market risks from fluctuations in accordance with internal policies.<br>4) Method of evaluating hedge effectiveness<br>The effectiveness of hedge items and instruments are evaluated on an individual basis at the end of each term. |
| (7) Other significant items relating to the preparation of the consolidated financial statement | Accounting for consumption tax<br>Consumption tax is separately accounted for by excluding it from each transaction amount. | Accounting for consumption tax<br>Same as on the left. | Accounting for consumption tax<br>Same as on the left. |
| 5. Cash and cash equivalents in the consolidated cash flow statement | Funds (cash and cash equivalents) stated in the consolidated cash flow statement are cash on hand, deposits that can be drawn on as needed and short term investments that can be readily converted, bear minimal price fluctuation risk and whose date of maturity falls within 3 months of the date of acquisition. | Same as on the left. | Same as on the left. |

### Changes in the Significant Items Concerning the Accounting Basis of the Interim Consolidated Financial Statements

| Interim Fiscal 2007<br>(Jan. 1 – Jun. 30, 2007) | Interim Fiscal 2008<br>(Jan. 1 – Jun. 30, 2008) | Fiscal 2007<br>(Jan. 1 – Dec. 31, 2007) |
|---|---|---|
| Change in depreciation and amortization method for fixed assets:<br>The Company and its domestic subsidiaries, pursuant to an amendment to the Corporation Tax Law (Partial Revision of Income Tax Law, or Law No. 6, March 30, 2007; and Partial Revision of Income Tax Law Enforcement Ordinance, or Cabinet Order No. 83, March 30, 2007), the treatment of depreciation on fixed assets acquired on or after April 1, 2007 has been changed to the method stipulated in the amended Corporation Tax Law.<br>The effect of this change in profit/loss is insignificant. | ――――― | Change in depreciation and amortization method for fixed assets:<br>The Company and its domestic subsidiaries, pursuant to an amendment to the Corporation Tax Law (Partial Revision of Income Tax Law, or Law No. 6, March 30, 2007; and Partial Revision of Income Tax Law Enforcement Ordinance, or Cabinet Order No. 83, March 30, 2007), the treatment of depreciation on fixed assets acquired on or after April 1, 2007 has been changed to the method stipulated in the amended Corporation Tax Law.<br>The effect of these changes was to decreases operating profit, ordinary profit and net profit before taxes and adjustments by 12,677 thousand yen, respectively.<br>The effect of these changes on segment operations is shown in the Segment Information section. |

### Reclassifications

| Interim Fiscal 2007<br>(Jan. 1 – Jun. 30, 2007) | Interim Fiscal 2008<br>(Jan. 1 – Jun. 30, 2008) |
|---|---|
| Consolidated Balance Sheets:<br>Effective the current interim period, “Software” included in “Other” under intangible fixed assets in the previous interim period, is reclassified and presented as a separate line item since it represents more than 5/100 of total assets as of the end of the current interim period.<br>In the previous interim period, “Software” included in “Other” under intangible fixed assets totaled 180,285 thousand yen. | ――――― |

## Additional Information

| Interim Fiscal 2007<br>(Jan. 1 – Jun. 30, 2007) | Interim Fiscal 2008<br>(Jan. 1 – Jun. 30, 2008) | Fiscal 2007<br>(Jan. 1 – Dec. 31, 2007) |
|---|---|---|
| ―――― | Depreciation and amortization method for principal depreciable assets:<br>The Company and its domestic subsidiaries, pursuant to an amendment to the Corporation Tax Law (Partial Revision of Income Tax Law, or Law No. 6, March 30, 2007; and Partial Revision of Income Tax Law Enforcement Ordinance, or Cabinet Order No. 83, March 30, 2007), depreciate tangible fixed assets acquired on or before March 31, 2007 equally over five years, and book as a depreciation expense, the difference between the memorandum value, and 5% of the acquisition value, beginning in the fiscal year following the fiscal year in which the asset's value reaches 5% of the acquisition value based on depreciation methods prior to corporate tax law revisions.<br>The effect of this change in profit/loss is insignificant. | ―――― |

## Notes to Interim Consolidated Financial Statements

## Notes to Consolidated Balance Sheets

(Thousands of yen)

| Interim Fiscal 2007<br>(As of Jun. 30, 2007) | Interim Fiscal 2008<br>(As of Jun. 30, 2008) | Fiscal 2007<br>(As of Dec. 31, 2007) |
|---|---|---|
| *1. Assets pledged as collateral<br>Time deposits of 40,000 thousand yen have been provided as collateral for derivative transactions. | *1. ―――― | *1. ―――― |
| *2. Accumulated depreciation of tangible fixed assets<br>224,118 | *2. Accumulated depreciation of tangible fixed assets<br>350,901 | *2. Accumulated depreciation of tangible fixed assets<br>296,024 |

**Notes to Consolidated Profit and Loss Statement**

(Thousands of yen)

| Interim Fiscal 2007 (Jan. 1 – Jun. 30, 2007) | | Interim Fiscal 2008 (Jan. 1 – Jun. 30, 2008) | | Fiscal 2007 (Jan. 1 – Dec. 31, 2007) | |
|---|---|---|---|---|---|
| *1. Significant components and amounts of sales and general administrative expenses | | *1. Significant components and amounts of sales and general administrative expenses | | *1. Significant components and amounts of sales and general administrative expenses | |
| Advertising expenses | 166,910 | Advertising expenses | 202,642 | Advertising expenses | 372,644 |
| Salaries and wages | 386,876 | Salaries and wages | 469,863 | Salaries and wages | 782,548 |
| Depreciation expenses | 16,866 | Depreciation expenses | 17,115 | Depreciation expenses | 35,309 |
| Amortization of goodwill | 140,301 | Amortization of goodwill | 123,795 | Amortization of goodwill | 280,802 |
| Provision of allowance for bonuses to directors | 19,000 | | | Provision of allowance for bonuses to directors | 2,300 |
| *2. Significant components of loss on retirement of fixed assets | | *2. Significant components of loss on retirement of fixed assets | | *2. Significant components of loss on retirement of fixed assets | |
| Software | 289 | Tools and equipment | 606 | Software | 289 |
| Tools and equipment | 512 | Total | 606 | Tools and equipment | 665 |
| Other | 124 | | | Total | 955 |
| Total | 927 | | | | |

## Notes to Statement of Changes in Consolidated Shareholders' Equity

Interim Fiscal 2007 (Jan. 1 – Jun. 30, 2007)

1. Type and number of outstanding shares and treasury stock (Shares)

| | Number of shares as of Dec. 31, 2006 | Increase during the period | Decrease during the period | Number of shares as of Jun. 30, 2007 |
|---|---|---|---|---|
| Outstanding shares | | | | |
| Common stock (see note) | 115,760 | 470 | - | 116,230 |
| Total | 115,760 | 470 | - | 116,230 |
| Treasury stock | | | | |
| Common stock | - | - | - | - |
| Total | - | - | - | - |

Note: The increase in the number of common shares outstanding is due to the issue of new shares (470 shares) resulting from the exercise of stock acquisition rights.

2. Dividends

(1) Dividend payment

| Resolution | Type of share | Total amount of dividend (Thousands of yen) | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| General meeting of shareholders on Mar. 26, 2007 | Common stock | 252,356 | 2,180 | Dec. 31, 2006 | Mar. 27, 2007 |

(2) Dividends with a record date in the current interim period but an effective date in the following interim period

Not applicable.

Interim Fiscal 2008 (Jan. 1 – Jun. 30, 2008)

1. Type and number of outstanding shares and treasury stock (Shares)

| | Number of shares as of Dec. 31, 2007 | Increase during the period | Decrease during the period | Number of shares as of Jun. 30, 2008 |
|---|---|---|---|---|
| Outstanding shares | | | | |
| Common stock (see note) | 116,310 | 80 | - | 116,390 |
| Total | 116,310 | 80 | - | 116,390 |
| Treasury stock | | | | |
| Common stock | - | - | - | - |
| Total | - | - | - | - |

Note: The increase in the number of common shares outstanding is due to the issue of new shares (80 shares) resulting from the exercise of stock acquisition rights.

2. Dividends

(1) Dividend payment

| Resolution | Type of share | Total amount of dividend (Thousands of yen) | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| General meeting of shareholders on Mar. 24, 2008 | Common stock | 253,555 | 2,180 | Dec. 31, 2007 | Mar. 25, 2008 |

(2) Dividends with a record date in the current interim period but an effective date in the following interim period

Not applicable.

Fiscal 2007 (Jan. 1 – Dec. 31, 2007)

1. Type and number of outstanding shares and treasury stock (Shares)

| | Number of shares as of Dec. 31, 2006 | Increase during the fiscal year | Decrease during the fiscal year | Number of shares as of Dec. 31, 2007 |
|---|---|---|---|---|
| Outstanding shares | | | | |
| Common stock (see note) | 115,760 | 550 | - | 116,310 |
| Total | 115,760 | 550 | - | 116,310 |
| Treasury stock | | | | |
| Common stock | - | - | - | - |
| Total | - | - | - | - |

Note: The increase in the number of common shares outstanding is due to the issue of new shares resulting from the exercise of stock acquisition rights.

2. Dividends

(1) Dividend payment

| Resolution | Type of share | Total amount of dividend (Thousands of yen) | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| General meeting of shareholders on Mar. 26, 2007 | Common stock | 252,356 | 2,180 | Dec. 31, 2006 | Mar. 27, 2007 |

(2) Dividends with a record date in the current fiscal year but an effective date in the following fiscal year

| Resolution | Type of share | Total amount of dividend (Thousands of yen) | Source of funds | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| General meeting of shareholders on Mar. 24, 2008 | Common stock | 253,555 | Earned surplus | 2,180 | Dec. 31, 2007 | Mar. 25, 2008 |

## Notes to Consolidated Cash Flow Statement

(Thousands of yen)

| Interim Fiscal 2007 (Jan. 1 – Jun. 30, 2007) | | Interim Fiscal 2008 (Jan. 1 – Jun. 30, 2008) | | Fiscal 2007 (Jan. 1 – Dec. 31, 2007) | |
|---|---|---|---|---|---|
| * Reconciliation of cash and cash equivalents of the consolidated cash flow statement and cash and deposits of consolidated balance sheets for the interim period is made as follows: | | * Reconciliation of cash and cash equivalents of the consolidated cash flow statement and cash and deposits of consolidated balance sheets for the interim period is made as follows: | | * Reconciliation of cash and cash equivalents of the consolidated cash flow statement and cash and deposits of consolidated balance sheets for the fiscal year is made as follows: | |
| Cash and deposits | 2,424,550 | Cash and deposits | 2,092,995 | Cash and deposits | 2,385,337 |
| Time deposit with maturities over 3 months | (40,000) | Time deposit with maturities over 3 months | (40,000) | Time deposit with maturities over 3 months | (40,000) |
| Cash and cash equivalents | 2,384,550 | Cash and cash equivalents | 2,052,995 | Cash and cash equivalents | 2,345,337 |

## Accounting for Leases

Information on accounting for leases is not presented since the disclosure of this information is not significant in the context of the summary of interim financial results.

## Securities

Interim Fiscal 2007 (As of Jun. 30, 2007)

Securities with no market value (Thousands of yen)

| | Carrying value |
|---|---|
| (1) Available-for-sale securities | |
| Unlisted stock | 10,000 |
| Unlisted foreign stock | 30,000 |

Interim Fiscal 2008 (As of Jun. 30, 2008)

Securities with no market value (Thousands of yen)

| | Carrying value |
|---|---|
| (1) Available-for-sale securities | |
| Unlisted stock | 3,112 |
| Unlisted foreign stock | 25,005 |
| (2) Subsidiary stock | 14,324 |

Fiscal 2007 (As of Dec. 31, 2007)

Securities with no market value (Thousands of yen)

| | Carrying value |
|---|---|
| (1) Available-for-sale securities | |
| Unlisted stock | 3,112 |
| Unlisted foreign stock | 29,197 |

Note: In the current fiscal year, the available-for-sale securities (unlisted stock with no market value) of 9,388 thousand yen were written down.

## Derivatives

Interim Fiscal 2007 (As of Jun. 30, 2007)

Not applicable since derivative transactions are accounted by the hedge accounting method.

Interim Fiscal 2008 (As of Jun. 30, 2008)

Not applicable.

Fiscal 2007 (As of Dec. 31, 2007)

Information on market values

(Thousands of yen)

| Risk covered | Type of transaction | Contract amount | Market value | Net valuation gain/loss |
|---|---|---|---|---|
| Currency | Currency swaps | 188,700 | 140,642 | (48,057) |

## Business Combinations

Interim Fiscal 2007 (Jan. 1 – Jun. 30, 2007)

Not applicable.

Interim Fiscal 2008 (Jan. 1 – Jun. 30, 2008)

I. Business combinations accounted for under the purchase method

The Company purchased the hosting business of RECOMM Co., Ltd. on March 31, 2008, as described below.

1. Name of the acquired business, description of business, legal method of combination, date of combination, and reason for combination

(1) Name of the acquired business and description of business

Acquired business: RET’S NET business of RECOMM Co., Ltd.

Description of business: Provision of hosting services

(2) Legal method of combination

Acquisition of business

(3) Date of combination

March 31, 2008

(4) Primary reason for combination

RET’S NET, the acquired business, provides hosting services in Japan, and the Company decided to acquire the business because it judged that doing so would further strengthen its client base in the hosting business in Japan, and would contribute to the enhancement of parent and consolidated results.

2. The period for which the results of operations of the acquired business are included in the interim consolidated financial statements of the Company

Three months from April 1, 2008 to June 30, 2008

3. Acquisition cost of the acquired business

48,119 thousand yen

4. Amount of goodwill recognized, reason for recognition, method of amortization and the useful life

(1) Amount of goodwill

48,119 thousand yen

(2) Reason for recognition

The entire acquisition cost was booked as goodwill because no assets or liabilities were transferred due to the business acquisition.

(3) Method of amortization and the useful life

Goodwill will be amortized over five years using the straight-line method.

5. There were no assets received and liabilities assumed on the date of combination.

6. Estimated impact on the consolidated profit and loss statement when the business combination is retroactively adjusted to the beginning of the current interim period

Detailed explanations are omitted due to immateriality of the amount.

Fiscal 2007 (Jan. 1 – Dec. 31, 2007)

Not applicable.

## Stock Options

Information on stock options is not presented since the disclosure of this information is not significant in the context of the summary of interim financial results.

## Segment Information

a. Operating segment information

Interim Fiscal 2007 (Jan. 1 – Jun. 30, 2007)

(Thousands of yen)

| | Hosting Business | Securities Business | Other | Total | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|
| Sales | | | | | | |
| (1) External sales | 2,833,587 | 539,923 | 2,125 | 3,375,636 | - | 3,375,636 |
| (2) Inter-segment sales and transfers | 2,656 | 26,763 | 300 | 29,719 | (29,719) | - |
| Total | 2,836,243 | 566,686 | 2,425 | 3,405,355 | (29,719) | 3,375,636 |
| Operating expenses | 2,241,252 | 605,235 | 11,433 | 2,857,921 | (34,831) | 2,823,090 |
| Operating profit (loss) | 594,991 | (38,549) | (9,007) | 547,434 | 5,112 | 552,546 |

Notes: 1. Reclassification of operating segments

The operating segment information is presented on the basis of the similarities in business content and sales markets.

2. Summary of operating segments

| Operating segments | Main products |
|---|---|
| Hosting Business | Shared hosting services, dedicated hosting services, virtual private server (VPS) hosting services, e-commerce shop development, and various application sales |
| Securities Business | SSL digital certificates, etc. |
| Other | Other services besides the above |

Interim Fiscal 2008 (Jan. 1 – Jun. 30, 2008)

(Thousands of yen)

| | Hosting Business | Securities Business | Other | Total | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|
| Sales | | | | | | |
| (1) External sales | 2,991,102 | 551,840 | 38,479 | 3,581,423 | - | 3,581,423 |
| (2) Inter-segment sales and transfers | 4,088 | 21,696 | 4,943 | 30,728 | (30,728) | - |
| Total | 2,995,191 | 573,537 | 43,422 | 3,612,151 | (30,728) | 3,581,423 |
| Operating expenses | 2,376,764 | 700,866 | 47,320 | 3,124,950 | (25,574) | 3,099,376 |
| Operating profit (loss) | 618,426 | (127,329) | (3,897) | 487,200 | (5,154) | 482,046 |

Notes: 1. Reclassification of operating segments

The operating segment information is presented on the basis of the similarities in business content and sales markets.

2. Summary of operating segments

| Operating segments | Main products |
|---|---|
| Hosting Business | Shared hosting services, dedicated hosting services, virtual private server (VPS) hosting services, e-commerce shop development, and various application sales |
| Securities Business | SSL digital certificates, etc. |
| Other | Other services besides the above |

Fiscal 2007 (Jan. 1 – Dec. 31, 2007)

(Thousands of yen)

| | Hosting Business | Securities Business | Other | Total | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|
| Sales | | | | | | |
| (1) External sales | 5,742,247 | 974,099 | 25,823 | 6,742,170 | - | 6,742,170 |
| (2) Inter-segment sales and transfers | 10,914 | 50,445 | 8,381 | 69,741 | (69,741) | - |
| Total | 5,753,162 | 1,024,544 | 34,204 | 6,811,911 | (69,741) | 6,742,170 |
| Operating expenses | 4,587,501 | 1,235,986 | 54,513 | 5,878,001 | (79,163) | 5,798,837 |
| Operating profit (loss) | 1,165,660 | (211,441) | (20,309) | 933,909 | 9,422 | 943,332 |

Notes: 1. Reclassification of operating segments
The operating segment information is presented on the basis of the similarities in business content and sales markets.

2. Summary of operating segments

| Operating segments | Main products |
|---|---|
| Hosting Business | Shared hosting services, dedicated hosting services, virtual private server (VPS) hosting services, e-commerce shop development, and various application sales |
| Securities Business | SSL digital certificates, etc. |
| Other | Other services besides the above |

3. As mentioned in the section on "Changes in the Significant Items Concerning the Accounting Basis of the Consolidated Financial Statements," effective from the current fiscal year, the Company has changed depreciation methods. The application of the new standards caused operating expenses in the Hosting Business, Securities Business, Other to increase by 11,397 thousand yen, 1,221 thousand yen and 58 thousand yen, respectively, and operating profit to decrease by the same amount.

## b. Geographical segment information

Interim Fiscal 2007 (Jan. 1 – Jun. 30, 2007) (Thousands of yen)

| | Japan | North America | Europe | Total | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|
| Sales | | | | | | |
| (1) External sales | 3,009,760 | 113,351 | 252,524 | 3,375,636 | - | 3,375,636 |
| (2) Inter-segment sales and transfers | 14,713 | 3 | 5,610 | 20,326 | (20,326) | - |
| Total | 3,024,474 | 113,354 | 258,134 | 3,395,963 | (20,326) | 3,375,636 |
| Operating expenses | 2,367,710 | 114,800 | 355,634 | 2,838,145 | (15,055) | 2,823,090 |
| Operating profit (loss) | 656,763 | (1,445) | (97,500) | 557,817 | (5,270) | 552,546 |

Notes: 1. Countries and regions are classified according to geographical proximity.
2. Countries and regions outside Japan are broken down into the following geographical areas.
North America: U.S.
Europe: U.K., Belgium

Interim Fiscal 2008 (Jan. 1 – Jun. 30, 2008) (Thousands of yen)

| | Japan | North America | Europe | Total | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|
| Sales | | | | | | |
| (1) External sales | 3,249,592 | 149,173 | 182,657 | 3,581,423 | - | 3,581,423 |
| (2) Inter-segment sales and transfers | 44,259 | 3 | 92,328 | 136,591 | (136,591) | - |
| Total | 3,293,851 | 149,176 | 274,986 | 3,718,014 | (136,591) | 3,581,423 |
| Operating expenses | 2,656,554 | 183,761 | 393,315 | 3,233,631 | (134,255) | 3,099,376 |
| Operating profit (loss) | 637,297 | (34,584) | (118,329) | 484,382 | (2,336) | 482,046 |

Notes: 1. Countries and regions are classified according to geographical proximity.
2. Countries and regions outside Japan are broken down into the following geographical areas.
North America: U.S.
Europe: U.K., Belgium

Fiscal 2007 (Jan. 1 – Dec. 31, 2007) (Thousands of yen)

| | Japan | North America | Europe | Total | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|
| Sales | | | | | | |
| (1) External sales | 6,097,264 | 242,292 | 402,613 | 6,742,170 | - | 6,742,170 |
| (2) Inter-segment sales and transfers | 53,662 | 117 | 64,966 | 118,746 | (118,746) | - |
| Total | 6,150,927 | 242,409 | 467,580 | 6,860,916 | (118,746) | 6,742,170 |
| Operating expenses | 4,937,236 | 280,031 | 698,966 | 5,916,234 | (117,397) | 5,798,837 |
| Operating profit (loss) | 1,213,691 | (37,622) | (231,386) | 944,682 | (1,349) | 943,332 |

Notes: 1. Countries and regions are classified according to geographical proximity.

2. Countries and regions outside Japan are broken down into the following geographical areas.

North America: U.S.

Europe: U.K., Belgium

3. As mentioned in the section on “Changes in the Significant Items Concerning the Accounting Basis of the Consolidated Financial Statements,” effective from the current fiscal year, the Company has changed depreciation methods. The application of the new standards caused operating expenses in Japan to increase by 12,677 thousand yen, and operating profit to decrease by the same amount.

### c. Overseas sales

Interim Fiscal 2007 (Jan. 1 – Jun. 30, 2007)

Information of overseas sales is not presented since overseas sales account for less than 10% of consolidated sales.

Interim Fiscal 2008 (Jan. 1 – Jun. 30, 2008)

Information of overseas sales is not presented since overseas sales account for less than 10% of consolidated sales.

Fiscal 2007 (Jan. 1 – Dec. 31, 2007)

Information of overseas sales is not presented since overseas sales account for less than 10% of consolidated sales.

## Per Share Information

(Yen)

| | Interim Fiscal 2007<br>(Jan. 1 – Jun. 30, 2007) | Interim Fiscal 2008<br>(Jan. 1 – Jun. 30, 2008) | Fiscal 2007<br>(Jan. 1 – Dec. 31, 2007) |
|---|---|---|---|
| Net assets per share | 29,365.08 | 29,911.74 | 30,647.27 |
| Net profit per share | 2,652.28 | 1,363.52 | 3,195.82 |
| Diluted net profit per share | 2,634.96 | 1,360.17 | 3,177.52 |
| | The Company conducted 2 for 1 stock split on July 1, 2006.<br>Per share information for the previous interim period retroactively adjusted to the beginning of the previous fiscal year, is as follows.<br>Net assets per share 25,506.06<br>Net profit per share 3,598.38<br>Diluted net profit per share 3,530.52 | | |

Notes: 1. Basis for calculation of net assets per share is as follows.

(Thousands of yen)

| | Interim Fiscal 2007<br>(As of Jun. 30, 2007) | Interim Fiscal 2008<br>(As of Jun. 30, 2008) | Fiscal 2007<br>(As of Dec. 31, 2007) |
|---|---|---|---|
| Total net assets | 3,512,121 | 3,550,255 | 3,661,189 |
| Deduction on total net assets | 99,017 | 68,827 | 96,605 |
| [of which minority interests] | [99,017] | [68,827] | [96,605] |
| Net assets applicable to common stock | 3,413,103 | 3,481,427 | 3,564,584 |
| Number of common stock (shares) | 116,230 | 116,390 | 116,310 |

2. Basis for calculation of net profit per share and diluted net profit per share is as follows.

(Thousands of yen)

| | Interim Fiscal 2007<br>(Jan. 1 – Jun. 30, 2007) | Interim Fiscal 2008<br>(Jan. 1 – Jun. 30, 2008) | Fiscal 2007<br>(Jan. 1 – Dec. 31, 2007) |
|---|---|---|---|
| Net profit per share | | | |
| Net profit carried on the consolidated profit and loss statement | 307,476 | 158,611 | 371,017 |
| Amount not belonging to common shareholders | - | - | - |
| Net profit applicable to common stock | 307,476 | 158,611 | 371,017 |
| Average number of shares outstanding (shares) | 115,928 | 116,324 | 116,094 |
| Diluted net profit per share | | | |
| Adjustments to net profit | - | - | - |
| Increase in the number of common stock (shares) | 762 | 287 | 668 |
| [of which stock acquisition rights] | [762] | [287] | [668] |
| Summary of non-dilutive stock equivalents not used in calculation of diluted net profit per share | - | - | - |

**Material Subsequent Events**

| Interim Fiscal 2007<br>(Jan. 1 – Jun. 30, 2007) | Interim Fiscal 2008<br>(Jan. 1 – Jun. 30, 2008) | Fiscal 2007<br>(Jan. 1 – Dec. 31, 2007) |
|---|---|---|
| ―――― | 1. GMO-HS consolidated subsidiary Mighty Server, Inc. concluded a basic agreement to acquire the managed housing and hosting businesses of Inter.net Japan Ltd. at a Board of Directors on August 14, 2008.<br><br>(1) Purpose of acquisition<br>Inter.net Japan Ltd. possesses a high level of technological expertise related to managed hosting services, demand for which is expected to grow going forward. The Group believes that acquiring these related businesses will help it offer high-quality, diverse managed hosting service solutions that will help to underpin consolidated earnings.<br><br>(2) Name of entity ceding businesses to GMO-HS<br>Inter.net Japan Ltd.<br><br>(3) Description of business to be transferred<br>Managed housing and hosting businesses<br><br>(4) Assets and liabilities to be transferred from Inter.net Japan Ltd.<br>The value of the assets and liabilities to be transferred from Inter.net Japan Ltd. to the Group will be based on book value. Calculations are still under way, and the transfer price has yet to be set.<br><br>(5) Date of transfer of businesses<br>September 8, 2008:<br>Conclusion of contract for transfer of businesses (scheduled)<br>October 1, 2008:<br>Completion of transfer of businesses (scheduled) | ―――― |

** This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation*