Fiscal Year 2016 Consolidated Financial Results (Japanese GAAP)

February 6, 2017

Name of Listed Company: GMO Internet, Inc.
Exchange Listing: Tokyo Stock Exchange   Stock Code: 9449   URL: http://www.gmo.jp/en
Representative: Masatoshi Kumagai, CEO and Representative Director and Group CEO
Official Contact: Masashi Yasuda, CFO and Vice President   Contact Number: +81-3-5456-2555
Date of Annual General Shareholders Meeting: March 20, 2017   Start Date of Dividend Payout: March 6, 2017
Date of Annual Report Release: March 21, 2017
Supplementary documents available pertaining to quarterly financial results: Yes
Quarter results presentation: Yes (for institutional investors and analysts)

(all amounts rounded down to the nearest million yen)

1. Consolidated Results in the Fiscal Year Ended December 2016 (01.01.2016- 12.31.2016)

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

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to Owners of the Parent	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
FYE12/2016	135,026	6.9	17,017	14.9	16,686	12.3	7,234	-46.1
FYE12/2015	126,337	15.5	14,803	14.5	14,857	16.7	13,419	129.7

(Note) Comprehensive Income: FYE 12/2016 ¥ 10,503 million (-28.8%) , FYE12/2015 ¥14,747 million (71.9 %)

	Net Profit per Share	Net Profit per Share (Diluted)	Ratio of Shareholders' Equity to Net Profit	Ratio of Total Assets to Ordinary Profit	Ratio of Net Sales to Operating Profit
	¥	¥	%	%	%
FYE12/2016	62.26	60.89	18.3	2.9	12.6
FYE12/2015	113.91	112.99	39.0	2.9	11.7

(Reference) Earnings/Loss on Equity Method Investment: FYE 12/2016 ¥-126 million, FYE 12/2015 ¥41 million

(2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio	Shareholders' Equity per Share
	¥ millions	¥ millions	%	¥
FYE12/2016	588,819	66,179	6.7	340.92
FYE12/2015	554,626	62,156	7.1	336.50

(Reference) Shareholders' Equity: FYE 12/2016 ¥39,527 million, FYE 12/2015 ¥39,641 million

(3) Consolidated Cash Flow

	Cash Flow from Operating Activities	Cash Flow from Investing Activities	Cash Flow from Financing Activities	Cash and Equivalents End of Term Balance
	¥ millions	¥ millions	¥ millions	¥ millions
FYE12/2016	3,118	-11,204	23,749	90,125
FYE12/2015	-12,624	12,774	9,523	74,929

2. Dividends

	Dividends per Share					Total Dividend Payout	Payout Ratio (Consolidated)	Ratio of Dividends to Total Assets (Consolidated)
	End of Q1	End of Q2	End of Q3	End of Term	Total			
	¥	¥	¥	¥	¥	¥ millions	%	%
FYE12/2015	6.00	5.00	7.00	20.00	38.00	4,476	33.4	13.0
FYE12/2016	5.00	5.00	5.00	6.00	21.00	2,434	33.7	6.2
FYE12/2017 (forecast)	5.00	6.00	6.00	6.00	23.00		33.3	

3. Consolidated Results Forecast for the Year Ending December 2017 (01.01.2017 – 12.31.2017)

(Full year % represent previous term comparison; Interim % represent year on year percentage change)

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to Owners of the Parent		Net Profit per Share
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%	¥
First Half	—		—		—		—		—
Full Year	145,000	7.4	19,000	11.7	18,500	10.9	8,000	10.6	69.00

(Note) No first half guidance issued.

*Notes

(1) Significant changes in subsidiaries in the current term (transfer of a subsidiary resulting in change in scope of consolidation):
New: 1 company (GMO Financial Gate Inc,)
Excluded: None

(2) Changes in accounting policy, changes in accounting estimates, restatements
1. Changes resulting from revisions to accounting policy: Yes
2. Changes other than those specified above: none
3. Changes in accounting estimates: none
4. Restatements: none

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

1. No. of outstanding shares at end of term (including treasury stock)	FYE 12/2016	115,944,677	FYE 12/2015	117,806,777
2. No. of treasury shares at end of term	FYE 12/2016	1,811	FYE 12/2015	1,811
3. Average no. of shares during term	FYE 12/2016	116,201,877	FYE 12/2015	117,804,966

(Reference) Summary of Non-Consolidated Financial Results
1. Non-consolidated Results in the Fiscal Year Ended December 2016 (01.01.2016 - 12.31.2016)
(1) Consolidated Operating Results (percentages shown represent year-on-year % change)

	Net Sales		Operating Profit		Ordinary Profit		Net Profit	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
FYE12/2016	32,177	11.0	887	664.4	5,058	49.8	2,960	-66.2
FYE12/2015	28,985	14.6	116	87.3	3,376	148.0	8,754	—

	Net Profit per Share	Net Profit per Share (Diluted)
	¥	¥
FYE12/2016	25.47	—
FYE12/2015	74.31	—

(2) Non-consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio	Shareholders' Equity per Share
	¥ millions	¥ millions	%	¥
FYE12/2016	39,776	17,219	43.3	148.51
FYE12/2015	39,001	20,510	52.6	174.10

(Reference) Shareholders' Equity: FYE 12/2016 ¥17,219 million, FYE 12/2015 ¥20,510 million

*Quarterly Results Statement Audit
This results statement is subject to review under the Financial Instruments and Exchange, at the time document was filed the review was ongoing.
* Note regarding the appropriate use of results forecasts and other items
Projections are based on information available at the time of release and may include judgments based on factors that contain risk and are largely indeterminable. Actual results may differ materially from these projections as a result of business environment and other factors. Please refer to page 2 for details.
Results Presentation for Investors and Analysts: February 6, 2017
A video of the presentation and the presentation slides (both in Japanese and English) will be available on our Investor Relations website (http://ir.gmo.jp/en/) shortly after the event.

Contents

1. Operating Results

(1) Operating Results Analysis

Overview of Financial Results in the Fiscal Year Ended December 2016

(Unit: ¥millions)

	Previous Fiscal Year	Current Fiscal Year	Change	% Change
Net Sales	126,337	135,026	8,688	6.9%
Operating Profit	14,803	17,017	2,213	14.9%
Ordinary Profit	14,857	16,686	1,829	12.3%
Profit attributable to Owners of the Parent	13,419	7,234	-6,184	-46.1%

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

Amidst a healthy external environment, the Group continued to operate under the theme of “strengthening our strengths and enhancing weaker areas with No. 1 products”. (1) The Internet Infrastructure segment, already comprising multiple No. 1 products, invested (approx. ¥1,070 million) in promoting C2C handmade market, minne with the objective of propelling the service to a strong No. 1 market position. (2) The Internet Securities segment continued to expand customer base through a cost leadership strategy. (3) Responding to changes in the market, the Online Advertising & Media segment focused on product development and sales. (4) The Mobile Entertainment continued to bring costs under control with plans to develop a hit title.

Fiscal year 2016 net sales increased 6.9% year-on-year to ¥135,026 million. Over the same period operating profit increased 14.9% to ¥17,017 million, and ordinary profit increased 12.3% to ¥16,686 million, while net profit attributable to owners of the parent was down 46.1% to ¥7,234 million due to the gain on sale of shares in GMO CLICK HD reported in the previous year.

Net Sales and Operating Profit by Segment in the Fiscal Year 2016 (Unit: ¥millions)

	Previous Fiscal Year	Current Fiscal Year	Change	% Change
Internet Infrastructure				
Net Sales	55,412	65,414	10,001	18.1%
Operating Profit	4,311	6,598	2,287	53.0%
Online Advertising & Media				
Net Sales	40,570	44,185	3,614	8.9%
Operating Profit	1,202	1,293	90	7.5%
Internet Securities				
Net Sales	29,805	27,350	-2,455	-8.2%
Operating Profit	9,666	9,611	-55	-0.6%
Mobile Entertainment				
Net Sales	4,098	2,138	-1,960	-47.8%
Operating Profit	-755	-497	257	-
Incubation				
Net Sales	793	448	-344	-43.4%
Operating Profit	332	-29	-361	-
Other				
Net Sales	7	195	187	-
Operating Profit	-92	-106	-14	-
Adjustment				
Net Sales	-4,350	-4,706	-355	-
Operating Profit	137	147	9	-
Total				
Net Sales	126,337	135,026	8,688	6.9%
Operating Profit	14,803	17,017	2,213	14.9%

Segment results for the current consolidated fiscal year are as follows. Effective January 1, 2016, standards for expense allocation were revised in order to allow for a more appropriate evaluation of segment performance. Reportable segments for the previous fiscal year are also presented based on the new allocation standards.

Segment Report

1) Internet Infrastructure

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

i. Domain

Gateway to the Group's infrastructure segment, the domain business continued to actively grow customer base with a low-pricing strategy. Current growth in registration volume is strong. In the current fiscal year, we began worldwide expansion of ".shop", and we have made a good start.

Domain registration and renewals grew 11.2% to 5.12 million, and total domains under management rose 10.2% to 6.01 million. Net sales grew 25.2% year-on-year to ¥7,844 million.

ii. Hosting & Cloud

The hosting & cloud business responded to growing sophistication and diversification of client needs through cloud-based, dedicated, shared and VPS offerings under a multi-brand strategy.

In the external environment we saw rising demand for cloud hosting services over traditional hosting. GMO

AppsCloud, a cloud based hosting solution optimized for mobile game developers as well as general cloud hosting services grew as a proportion of the sub-segment.
Overall, web hosting contracts increased 2.2% over the previous corresponding term to 782,000 and net sales fell 0.3% year-on-year to ¥13,882 million.

iii. Ecommerce solutions
Ecommerce solutions comprises SaaS based services for online stores and C2C handmade market minne. In the tailwind of expansion of the market, the segment has provided support to shops including the improvement of cart system features, and ongoing industry seminars events and other initiatives. In minne in order to become overwhelmingly No. 1, in addition to investment in promotion, we have held offline events, strengthened smartphone app features and enhanced payment services.
At the end of the fiscal year, number of stores had increased 2.1% year-on-year to 75,000 and total transaction volume rose 9.5% to ¥261.4 billion, transaction volume of minne rose 88.3% to ¥8.39 billion.
Ecommerce solutions reported net sales of ¥8,178 million (29.6% year-on-year increase).

iv. Security
As the global expansion of security brand GlobalSign progressed, direct sales targeting large corporations and active sales partners drove market share growth both in Japan and globally. Security reported net sales of ¥4,902 million (12.9% year-on-year increase). Over 60% of revenue in this sub-segment came from outside of Japan.

v. Payment
Credit card and other online payment services are operated by GMO Payment Gateway and affiliates. The market environment was favorable, and we continued to expand and progress into new fields beyond online sales. This fiscal year, attention was paid to the increase in the number of affiliated stores, the number of transactions, with the expansion of money service business such as expansion of transaction lending, early payments service, and post pay services.
Overall number of merchants increased 24.9% over the previous year to 81,000 and transaction volume grew 23.1% year-on-year to ¥2.93trillion. The continued expansion of payment services as well as growth in money services business contributed to net sales growth of 40.3% year-on-year to ¥13,321million.

vi. Provider
This sub-segment operates Internet access (ISP) for consumers. In the current fiscal year, number of mobile WIFI users grew 11.4% to 392,000 as a result of recent cost effective marketing, and an expanding mobile Internet market. Net sales grew 26.6% year-on-year to ¥13,480 million.

Market share was expanded in each of the key Internet Infrastructure businesses in the period under review and overall net sales increased a significant 18.1% year-on-year to ¥65,414 million, while operating profit increased 53.0% year-on-year to ¥6,598 million after ¥1.07 billion was invested in the promotion of C2C handmade market, minne.

2) Online Advertising & Media
The Online Advertising & Media segment provides marketing solutions for online businesses. The following is a breakdown of results in each of the businesses comprising this segment.
i. Online Advertising
This sub-segment provides comprehensive Internet advertising services such as advertising agency and ad platform. In this market, the shift from net advertising, which is a selling of funds to operational advertising via ad technology, continues. In GMO AD Partners, In-house products such as AkaNe for advertisement for mart phones and TAXEL for recommendation widgets performed favorably. Net sales in online advertising increased 9.2% from the previous year to ¥26,767 million.
ii. Internet Media
This sub-segment provides advertising space within our own smartphone and PC content and marketing support services. Net sales in this sub-segment increased 7.0% to ¥14,457 million.

Overall, in the Online Advertising & Media segment, net sales totaled ¥44,185 million (8.9% year-on-year increase). Operating profit increased7.5% year-on-year to ¥1,293million. Focus in this segment remains on developing new products to accelerate the shift toward a technology driven business.

3) Internet Securities

The Internet Securities segment operates online financial services for retail investors. In the current fiscal year the segment has operates to increase customer base and transaction volume. In the current fiscal year, number of FX accounts grew 7.2% year-on-year to 636,000, while number of Securities accounts grew 10.0% year-on-year to 303,000.

The FX revenue, which accounts for the majority of sales and profits of the segment, was a year in which the volatility of performance for each quarter was high due to the influence of the UK EU withdrawal "Brexit" and the presidential election.

Net sales in the Internet Securities segment totaled ¥27,350 million (8.2% year-on-year decrease) and operating profit was ¥9,611million (0.6% year-on-year decrease).

4) Mobile Entertainment

This segment comprises smartphone and online game development and operations. In the current fiscal year, major titles including Minerva Knights experienced a slight drop in sales having now been on the market for some time. In the Mobile Entertainment segment, net sales fell 47.8% to ¥2,138 million, and operating loss was ¥497 million (¥755 million operating loss in the previous corresponding term) Having internalized all operations, we are building expertise and running a cost efficient business with the continued aim of producing a hit title.

5) Incubation

The Incubation segment invests in expanding business and building enterprise value in Internet-related companies. In the current fiscal year, revenue was ¥448 million (43.4% year-on-year decrease) and operating loss was ¥29 million (¥332 million operating profit in the previous corresponding term.

Results Forecast for Fiscal Year 2017

The company publishes only a full- year consolidated results forecast. Although we have constructed a solid business model, the business environment in the Internet market is subject to rapid change and in the Securities segment in particular there is a high risk that results will be impacted by finance markets, securities regulations and other external factors.

The Group’s consolidated results forecast for fiscal year 2017 is shown below. Despite strategic investment in shop and handmade goods C2C marketplace minne in the ecommerce solutions business and investment in structural reforms in the online advertising business we still forecast double-digit profit growth.

Projections are based on information available at the present time and include judgments based on factors that are largely indeterminable. Actual results may differ from the figures below as a result of changes in the business environment and other factors.

Consolidated Results Forecast (01.01.2017 – 12.31.2017) (Unit: ¥millions)

	FYE12/2017	% Change	FYE12/2016
	¥ millions	%	¥ millions
Net Sales	145,000	7.4	135,026
Operating Profit	19,000	11.7	17,017
Ordinary Profit	18,500	10.9	16,686
Profit attributable to Owners of the Parent	8,000	10.6	7,234

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

(Unit: ¥millions)

	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Net Sales	31,502	33,173	33,533	33,176	35,142
Operating Profit	2,728	3,657	5,032	4,291	4,035
Ordinary Profit	2,901	3,552	4,796	4,232	4,104
Profit attributable to Owners of the Parent	4,865	1,361	2,246	2,342	1,284
Total Assets	554,626	560,766	522,346	555,133	588,819
Shareholders' Equity	39,641	36,138	37,295	38,220	39,527

(Reference) Quarterly Results by Segment

(Unit: ¥millions)

I Net Sales by Segment

		Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Internet Infrastructure						
	Provider (ISP)	2,941	3,057	3,272	3,497	3,653
	Domain	1,727	1,939	1,949	2,045	1,910
	Hosting & cloud	3,539	3,430	3,445	3,451	3,554
	Ecommerce solutions	1,887	1,883	1,973	2,021	2,299
	Security	1,174	1,140	1,127	1,378	1,255
	Payment	2,649	2,908	2,983	3,184	4,243
	Other	979	962	1,131	952	759
	Total	14,899	15,323	15,882	16,531	17,677
Online Advertising & Media						
	Online advertising	6,237	6,865	6,112	6,806	6,983
	Internet media	3,427	3,883	3,540	3,633	3,400
	Other	669	754	711	695	798
	Total	10,333	11,504	10,363	11,134	11,182
Internet Securities						
	Total	6,762	6,734	7,808	6,036	6,771
Mobile Entertainment						
	Total	780	690	572	472	403
Incubation						
	Total	12	5	27	210	205
Sub total		32,788	34,256	34,654	34,385	36,240
Other		1	39	44	51	59
Adjustment		-1,288	-1,122	-1,165	-1,260	-1,158
Net Sales		31,502	33,173	33,533	33,176	35,142

II Operating Profit by Segment

	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Internet Infrastructure	961	1,390	1,595	1,962	1,650
Online Advertising & Media	151	449	216	417	208
Internet Securities	2,198	2,079	3,318	1,975	2,238
Mobile Entertainment	-467	-222	-69	-79	-125
Incubation	-118	-49	-35	3	52
Sub total	2,724	3,647	5,025	4,279	4,024
Other	-25	-32	-21	-15	-37
Adjustment	28	43	28	27	48
Operating Profit	2,728	3,657	5,032	4,291	4,035

(Reference) Description of businesses in each segment

Business Segment		Main Operations
Internet Infrastructure	Domain	・Domain registry services:"shop""tokyo" ・Domain registrations services: Onamae.com, MuuMuu Domain, VALUE-DOMAIN
	Hosting & Cloud	・Provision, operation, management, and maintenance of dedicated, shared, VPS and cloud-based web hosting services including Onamae.com Rental Server, GMO AppsCloud, ConoHa by GMO, GMO Cloud VPS, GMO Cloud Altus, GMO Cloud Private, Lolipop, heteml, Sqale and 30days Album
	Ecommerce Solutions	・SaaS based services for online store building including Color me shop! MakeShop. ・Operation of online shopping mall Calamel ・Operation of handmade marketplace, minne, tetote ・Operation of ecommerce/O2O support services etc. ・Web design, operational support and system consulting etc.
	Security	・DomainSSL, OrganizationSSL, other SSL certificates, code signing certificates, PDF document signing, client certificates and other digital certificate services
	Payment	・GMO Payment Gateway services including PG Multi-Payment Service and payment processing services for the public sector
	Provider	・GMO TokuToku BB, interQ MEMBERS, ZERO, other Internet provider services.
Online Advertising & Media	Online advertising	・Listing and mobile ad networks, search engine advertising, affiliate advertising, reward advertising. ・Advertising planning and production
	Internet media	・Development and operation of blog services yaplog! and JUGEM, Internet community services including freeml, Smartphone apps including fashion sharing app, Coordisnap. Operation of daily deals website, Kumapon by GMO, Ad distribution to own media and search engine results pages ・SEM Media: JWord, sales of JWord, Japanese keywords.
	Internet research	・Provision of Internet research systems, management and operation of online research panel, GMO Research Cloud Panel
Internet Securities	Internet securities	・Operation of online securities trading, FX trading services etc.
Mobile Entertainment	Mobile entertainment	・Smartphone game development and operation ・Online game development, operation and support
Incubation	Venture capital	・Investment in private Internet startups.

(2) Consolidated Financial Condition

Assets, Liabilities and Shareholders' Equity

Assets

At the end of fiscal year 2016 (December 31, 2016), assets had increased ¥34,192 million (6.2%) from the end of the previous fiscal year to ¥588,819 million. Significant factors included an increase of ¥14,302 million (18.8%) in cash and deposits, and an increase of ¥6,119 million (464.1%) in intangible fixed assets (other) due mainly to acquisition of the rights to operate the .shop domain.

Liabilities

At the end of the fiscal year, liabilities had increased ¥30,169 million (6.1%) from the end of the previous fiscal year to ¥522,639 million. Significant factors included fluctuations in customer assets in the Securities segment resulting in a decrease of ¥21,409 million (5.6%) in various liability items (deposits received, margin transaction liability, guarantees received, and variation margin received), an increase of ¥31,685 million (79.6%) in interest-bearing liabilities, an increase of ¥9,207 million (76.5%) in amount payable, and an increase of ¥7,703 million (25.9%) in deposits received.

Net Assets

At the end of the fiscal year, net assets had increased ¥4,022 million (6.5%) from the end of the previous fiscal year to ¥66,179 million. Movements in net assets included a decrease of ¥3,292 million (85.8%) in capital surplus due to retirement of treasury shares and changes in the parent's interest as a result of transactions with non-controlling interests, an increase of ¥3,139 million (10.4%) in earnings surplus (an increase of ¥7,234 million from recording net profit attributable to owners of the parent and a decrease of ¥4,095 million due to dividend payments), and an increase of ¥4,106 million (18.3%) in non-controlling minority equity due to a profit increase of consolidated subsidiaries.

Cash Flow

At the end of fiscal year 2016 (December 31, 2016), cash and equivalents had increased ¥15,196 million (20.3%) from the end of the previous fiscal year to ¥90,125 million. The following is a summary of cash flow activity in the period under review.

Cash Flow from Operating Activities

Inflow in operating activities was ¥3,118 million (¥12,624 million of outflow in the previous corresponding term). Major inflow included net profit before adjustment for tax etc. (¥16,826 million), depreciation expense (¥4,528 million), goodwill amortization (¥730 million), and an increase in deposits received (¥6,716 million). Major outflow included a decrease in trade payables (¥5,243 million), an increase in assets of the Internet Securities segment due to an increase in customer assets (¥5,034 million), and corporate tax payments (¥10,516 million).

Cash Flow from Investing Activities

Outflow from investing activities totaled ¥11,204 million (¥12,774 million of inflow in the previous corresponding term). Major outflow included acquisition of intangible fixed assets (¥7,371 million) and acquisition of investment securities (¥4,047 million).

Cash Flow from Financing Activities

Inflow from financing activities totaled ¥23,749 million (¥9,523 million of inflow in the previous corresponding term). Major outflow included dividend payments (¥4,106 million), dividend payments to non-controlling interests (¥1,260 million), and acquisition of treasury shares (¥2,236 million). Major inflow included a net increase in interest-bearing liabilities (increases in short- and long-term debt) (¥34,214 million).

(Reference) Cash Flow Indicators

	FYE12/2012	FYE12/2013	FYE12/2014	FYE12/2015	FYE12/2016
Shareholders' Equity Ratio (%)	7.6	5.8	6.1	7.1	6.7
Shareholders' Equity Ratio (Market Value) (%)	23.8	37.8	25.0	34.0	29.4
Ratio of Cash Flow to Interest Bearing Liabilities	1.9	1.9	2.1	-	18.6
Interest Coverage Ratio	41.4	42.8	49.7	-	6.9

Shareholders' Equity Ratio (%) : Shareholders' Equity / Total Assets

Shareholders' Equity Ratio (Market Value) : Market capitalization / Total Assets

Ratio of Cash Flow to Interest Bearing Liabilities: Interest-bearing Liabilities / Cash Flow

Interest Coverage Ratio: Cash Flow / Interest Payment

(*1) All financial indicators are calculated on a consolidated basis.

(*2) Market capitalization is calculated based on outstanding shares and excludes treasury stock.

(*3) Cash flow refers to Operating Cash Flow.

(*4) Interest-bearing liabilities includes all liabilities on the consolidated balance sheet on which interest is payable.

(*5) Ratio of Cash Flow to Interest Bearing Liabilities and Interest Coverage Ratio are not listed as operating cash flow was negative in the 12/2015 fiscal year.

(3) Policy regarding distribution of dividends and dividend payouts in the current and following term

GMO Internet demonstrates a clear commitment toward returning value to shareholders through its dividend policy. Under the policy, the company aims to return 50% of profits to shareholders. The company's target dividend payout ratio is a minimum of 33% of consolidated net profit (net profit attributable to owners of the parent) while we will aim to allocate the remainder of the 50% of consolidated net profit (net profit attributable to owners of the parent) to the acquisition of treasury stock after taking into consideration business results and financial condition, and taking a flexible approach in accordance with share price.

In line with the above policy, the company intends to pay a ¥23 dividend per share in fiscal year 2017 (33.3% payout ratio).

(4) Business Risks
The following section outlines risks relating to the group's business and financial condition that may be of material concern to investors when making investment decisions.
The Group monitors potential risk factors in its operating environment, makes every effort to mitigate against and manage risk efficiently, and has comprehensive policy in place to that effect.
Some of the items below concern potential future events and unless otherwise stated represent the Group's best judgment at the current point in time. Please note that this should not be considered an exhaustive list of risks associated investment in the company's stock.

I Risks associated with Business Environment
i. Competition
The group provides a comprehensive range of services mainly in the following business segments. 1. Internet Infrastructure comprising chiefly of domain, hosting & cloud, ecommerce solutions, security, payment and provider businesses, 2. Online Advertising & Media consisting of the online advertising, Internet media and Internet research businesses, 3. Internet Securities providing online securities and FX trading, 4. Mobile Entertainment comprising smartphone game and online game development and operation, and 5. Incubation which invests in Internet related ventures. We believe that there is a significant competitive advantage derived from the diversity of our operations. However, the possibility exists of increased competition in the future. It means, if competition for gaining new customers intensifies and revenue declines in the future, it may become necessary to reduce fees and increase capital expenditure or advertising. This could potentially have a material impact on business operations and performance.
ii. Innovation in Technology
The progress of Internet related technology is rapid and subsequently industry standards and customer needs are constantly changing. As a result new services and new products are constantly emerging. If we are slow in taking up new technologies we risk the services and equipment we provide becoming stale, leading to reduced competitiveness and a potentially negative impact the Group's operations and results. We believe it is essential to concentrate efforts on improving the ability of both our systems and our employees, and to pay close attention to developments, trends and new technologies.
iii. Acquisitions
The Group actively seeks both domestic and global merger and acquisition opportunities in order to advance into global markets, expand existing businesses, and acquire technologies or skills.
The Group conducts thorough due diligence into target company financial condition and contractual relationships in order to mitigate against and minimize risk. However, there are cases when time constraints do not allow for sufficient due diligence to be carried out. Therefore it is possible that unexpected or unaccounted for liabilities may arise after the completion of an acquisition. In foreign markets in particular, it may not be possible to execute business plans as intended due to revisions of laws or regulations enacted by local government or because of decisions made by the responsible regulatory bodies. This could potentially impact Group performance or make it difficult to recoup investments.
Further, it is possible that the loss of key personnel or customers in the target company could make it difficult to achieve objectives in terms of operating results or financial condition. These factors could also impact the performance of the Group.
In the case of mergers, the Group makes every effort to avoid a deterioration of relations with the partner company by devoting adequate time to discussions and conducting thorough negotiations in order to ensure that a strong and synergistic partnership can be built. However it is possible that expected synergies may not be realized due to differences in management policy that emerge after the formation of the partnership and this may also impact Group performance.

II Risks associated with Compliance

i Regulations and Compliance System

The Group and its operations are subject to the Companies Act, the Financial Instruments and Exchange Act and other various laws and regulations, ordinances, circular notices, and decrees, in additions to the regulations listed below. It is also possible that, because of the wider use of the internet and creation of new services using the internet, the Group will be subject to additional regulations as a result of new laws or revisions aimed at Internet users and related businesses, clarification of the application of existing laws or voluntary restraints that may be required of the industry.

In an effort to comply with these regulations, the Group ensures to establish, operate and improve a compliance system. If, however, failure to take appropriate responses due to, for example, a delay in establishment of the compliance system results in violation of these regulations and the Group faces a disposition by the supervisory agency, a damage claim or damage to our reputation, it may have an adverse impact on the Group’s business and operating results and financial position.

(a) Telecommunications Business Law

In light of the public nature of the telecommunications business, the Telecommunications Business Law was enacted to ensure the smooth provision of telecommunications services and to protect the interests of users by maintaining proper and reasonable conduct in the industry. The law seeks to ensure smooth development in telecommunications while at the same time protecting the interests of the public. As a designated telecommunications carrier, in accordance with these laws, the company is subject to regulations pertaining to censorship restrictions, protection of confidential communications, telecommunications equipment and the connection of telecommunications equipment. Further, following revisions to this law in 2015, it now applies to one of the Group’s major businesses, domain registration services. The Group is required to strengthen administrative and reporting structures, and implement a contract cooling-off period in the Internet provider business. The company has implemented measures such as changes to application procedures etc. in order to meet these obligations, however there is no guarantee that these measures will be sufficient. Receiving a warning from a government institution, an increase in contract cancellations or a decrease in new contracts could impact earnings results.

(b) Act on Control and Improvement of Amusement Business, etc.

These laws were enacted to regulate the business hours, locations, etc. of adult entertainment and related businesses with the aim of maintaining public morals and a healthy environment as well as preventing acts with the potential to impede the sound development of youth in society. The laws restrict the entry of minors into such places of business. In addition, these laws aim to ensure fair and reasonable conduct in the adult entertainment business and place direct controls on business operators in this industry.

However, these laws also apply to the server “space” the Group provides to users. Internet companies are accountable for their own servers. The company has an agreement with users concerning the content of websites created, operated etc. by the user. The agreement explicitly states that responsibility for web content lies with the user. In addition, we make every effort to widely publicize the relevant laws and ordinances. We have also independently established our own regulations prohibiting the distribution of illegal and harmful information on the Internet. However, there is no guarantee that these measures will be sufficient to prevent a user, other related person or governing body lodging a claim or demanding damages in relation to a site operated by one of our users.

(c) Act on the Prohibition of Unauthorized Computer Access

This law was enacted to prevent computer crimes committed via telecommunications lines, to maintain order in telecommunications and to regulate access control. The law is also aimed at contributing to the healthy development of an advanced information-oriented society. It prohibits unauthorized access to computers.

Under this law, as a company that controls the operation of computers connected to telecommunications lines, the company is obligated to take measures that safeguard against unauthorized access. This law also applies to the Group as an operator of computers.

(d) Act on the Limitation of Liability for Damages of Specified Telecommunications Service Providers

The aim of this law is to ensure the proper transmission of information in specific forms of telecommunication and was enacted in light of the increasing volume of information transmitted over the Internet. The law provides the right to demand the disclosure of sender information and limits damages claims against providers, server operators and other telecommunications service providers.

Certain company activities subject the Group, as a telecommunications carrier, to these laws. The same laws also impact our activities as senders of information. Regarding measures to prevent the distribution of information proscribed by these laws, the Group is required to make critical judgments which, if not appropriate, could result in claims or legal action brought against us by users, other related persons or organizations. The Group makes every effort to make appropriate judgments within the context of these laws; however in the event that an inappropriate judgment is made the group could face claims or legal action.

(e) Act on Specified Commercial Transactions

These laws were enacted to protect the interests of the purchaser by ensuring that specific commercial transactions (e.g. door-to-door sales, mail-order sales) are fair and just to prevent any damage being incurred by the purchaser and to ensure the smooth and proper distribution of goods, thereby contributing to the sound development of the national economy. The law regulates the display of business operators' names, prohibits unreasonable solicitation, and regulates false advertising. It also prescribes civil rules for cooling-off periods, compensation for damages, and an opt-in structure for online advertising.

In view of issues arising in recent years regarding Internet mail-orders sales, new types of transactions (and return of goods), junk mail issues, and leakage of credit card data, a revision to the Specified Commercial Transaction Laws was enacted on December 1, 2009 to strengthen regulations regarding transactions occurring over the Internet (provisions concerning email advertising were enacted on December 1, 2008).

Under this amendment, an opt-in system was implemented in regard to the sending of email advertising.

It is possible that the operation of this business and promotional email advertising could be restricted by these laws.

(f) Act on Regulation of Transmission of Specified Electronic Mail

Enacted in 2002, these laws aim to encourage a sound environment for email use. Requirements of the law such as an obligation for the sender to include contact details in certain types of mails, were introduced to curb the nuisance of spam-mail distribution.

In addition, an amendment to the law was enacted on May 30, 2008 and came into effect on December 12 of the same year. The amendment pertains to strengthening global agreements, improving efficacy and a move from the previous opt-out system to an opt-in system for the sending of certain specified emails.

The Group's email advertising business and the distribution of email advertising to customers are subject to these laws. It is possible that the operation of this business and promotional email advertising could be restricted by these laws.

(g) Act on the Protection of Personal Information

In a society where information communication continues to grow more sophisticated, personal information is increasingly transmitted digitally. In light of this, the Act on the Protection of Personal Information aims to ensure proper handling of personal information and protect the rights of individuals. Under this law, companies that handle personal information are obligated to specify use objective parameters of personal information, maintain reasonable methods of acquisition, maintain accurate and current personal data, and ensure safe storage. The law also restricts the disclosure or provision of personal information to third parties.

In accordance with these laws, the company is required to establish a procedure for adequately explaining and acquiring user permission when using personal information or passing it on to a third party.

In addition to these laws, the Group must also comply with the personal information protection requirements of competent authorities and other industry regulators.

(h) Act on Establishment of Enhanced Environment for Safe and Secure Internet Use for the Youth

In consideration of the large volume of information harmful to youth being distributed over the Internet, this law aims to protect the rights of young people and provide a safe Internet usage environment. Issued June 18, 2008, the legislation was implemented on April 1, 2009.

Under this law, the Group's access provider services, hosting services, message board services, and other server management related services will be obliged to provide filtering services, and take other actions that restrict access to information harmful to minors.

The deletion or restriction of information under these laws also impacts the creative expression of the information provider, and therefore the Group must identify information harmful to minors and make critical judgments in regard to the necessity for removal or restriction of access. The group makes every effort to reach appropriate judgments; however in the event that a judgment is inappropriate the group could face claims or legal action brought against us by information providers, other related persons or organizations.

(i) Fund Settlement Act

The Fund Settlement Act enables non-bank companies to allow the issue of a means of payment in advance and to conduct money transfers by registering as a Fund Transfer Company. The law seeks to ensure the proper conduct of fund transfer services, to protect consumers, to foster the provision of such services, and to improve the security, efficiency and convenience of fund settlement systems.

Companies that issue advance means of payment or funds transfers are required to file the necessary notifications, pay a guarantee among other measures specified by the Act. Companies that issue advance means of payment or funds transfers are required to file the necessary notifications and pay a guarantee among other measures specified by the Act. The Financial Systems Council Financing Subcommittee expressed that some kind of regulation needs to be in place to protect the interests of consumers in regard to “point reward programs” under this law. Also in regard to services such as receiving agents, the supplementary resolution to a legislative bill for amendment to the Financial Instruments and Exchange Act, states that new retail funds settlement services that differ from existing services can be expected to develop and proliferate in the future and that a structure must be considered for the proper screening and oversight of companies issuing an advance means of payment or providing fund transfer services and the government must understand the nature of these service providers including providers of new services. In addition, a structure for fund settlement must be considered that ensures that funds are properly handled during the settlement process, and the government must strive to improve security efficiency and convenience of settlement systems.

Going forward, any of the above structures and systems, if implemented may restrict operation of the Group's GMO point system and the Group's payment processing services.

(j) Act against Unjustifiable Premiums and Misleading Representations

The purpose of this Act is to prevent inducement of customers by means of unjustifiable premiums and misleading representations and to protect the interests of general consumers by restricting and prohibiting actions that inhibit the consumers' ability to make independent and rational purchase choices.

The Group strives to fairly represent product and service details and prices, and when conducting campaigns ensure that the compaign is operated in compliance with relevant laws, conduct internal compliance training, and avoid unjustly misleading users by selling coupons representing products and services of significantly higher quality than they are in reality, or causing users to believe they are receiving savings on a seasonal or limited edition product by advertising a “regular price” when no "regular“ or “list" price exists.

However in the event that a product or service purchased by a customer is faulty, if advertising contains false claims, or if the user, the government or a judicial agency claims that product or service representation was inaccurate, a complaint may be brought against the Group from the purchaser, and in the event that compensation or damages are sought or penalties are levied against the Group under this law, then operations, earnings, and trust may be negatively impacted.

(k) Gang Exclusion Ordinances

On October 10, 2011 the Gang Exclusion Ordinance was enacted by the Tokyo government and the same ordinance was enacted by other municipal governments. Under the ordinance, businesses that suspect new business contracts may support the activities of gangs or contribute to the operation of gangs, must endeavor to confirm whether the other party in the contract has gang ties. When a business operator is entering into a written contract relating to their business they must include special anti-gang clauses. Regulations place obligation on businesses. The Group strives to conduct evaluations of contract parties, provide a written pledge that they are not gangs and provide special clauses. However, if inquiries to the police and anti-gang agencies prove insufficient and the Group unintentionally enters into a transaction or other agreement with a gang – if it becomes necessary to break important contracts or consider compensation there could be material impact on the management and earnings of the Group or damage to public trust in the Group.

ii. The Possibility of Litigation
The group operates services including provision of Internet infrastructure such as web hosting and domain names. As a provider of a wide range of information, products and services via the Internet in ecommerce, finance and other industries it is essential the Group operate stable infrastructure. The company strives to provide reliable services and systems. We have an uninterruptible power supply system, backup systems etc. that allow us to provide management, maintenance and customer support services 24 hours a day, 365 days a year to respond to any problems that may arise. However, as a result of damages that cannot be quickly resolved through the Group's normal crisis management system, such as major destruction caused by a natural disaster, DDos attacks or unauthorized access to the company's servers or other facilities, damage may be incurred by users or other third parties. Although our service agreement contracts contain indemnification clauses, if legal action is brought against the company as a result of this kind of incident, it has the potential to severely impact on the company and its business performance as well as trust in the Group. While no such lawsuit or other appeal has been brought against the company to date there is the possibility of such an occurrence in the future.

iii. Risks associated with effectiveness of risk management
The Group ensures to establish, operate and improve risk management policy and procedures for various types of business risk. However, it is possible that fast-paced entrance to new business areas or business expansion may give rise to unexpected risks for which the existing risk management policy and procedures may not function effectively, and as a result, the Group's business, operating results and financial position may be adversely affected.
iv. Negative press on the Group or its business domain
Negative press on the Group or its business domain is sometimes released, and the Group ensures to disclose and provide accurate information in a timely manner. Regardless of the accuracy of the press, however, it is possible that such press will have a negative impact on understanding and recognition of our customers and investors as well as on the Group's business, operating results, and financial position.
v. Risks associated with Information Security
The Group makes every effort to ensure the security of information it manages and maintains, including personal information (and individual "My Number") of users and employees, through the establishment of internal regulations, internal network monitoring, requiring staff to sign agreements and other ongoing measures. However, information may be compromised by improper use of file-sharing software, infection by a previously unknown virus, hacking into the company's network, or unauthorized handling of information. The Group continually strives to strengthen its information management systems, but any information leakage etc. may seriously damage confidence in the Group and impact business operations and results.
vi. Damages Liability Arising from Transactions with Third Parties
The Group provides services that enable users to build simple web commerce sites, operates services that allows users to advertise products and services via display advertising or email among other services. In 2011 smartphone game and daily deal (Kumapon) businesses were also established. In order to avoid confusion or the

misunderstanding that the Group is the originator of the products and services sold or advertised via these service, or products and services that are sold via daily deal coupons, the Terms of Use of the above services require the service users to agree to be liable for transactions and to be responsible for the content of advertisements, and the company also makes an effort to fairly and properly display the name of the service operator or provider on the company website etc.
However in the event that quality of a product or service purchased by a customer is poor, if advertising contains false claims, or if the user, the government or a judicial agency claims that product or service representation was inaccurate, a complaint may be brought against the Group from the purchaser, and in the event that compensation or damages are sought, trust in the Group may be damaged and business activities and operation may be significantly impacted.

III. Risks associated with Business Activities Abroad
The Group sees tremendous opportunies in overseas markets mainly in Asia, and proactively launches or expands overseas business and forms alliance with strong local partners. In doing so, the Group engages local law firms, accounting firms and other specialists for consultation and research of regulations, and facilitates personnel exchange to build a good relationship with alliance partners. However, it is possible that the Group may not achieve expected results or may incur exit loss due to various factors, and as a result the Group’s business, operating results and financial position may be adversly affected. Such factors include enactment or revisions of local tax laws or regulations, changes in political or economic situations, deterioration in operating results or financial position of alliance partners, or occurrence of an event to cause dissolution of alliance or make it difficult to maintain the alliance.

IV. Risks by Sub-segment
(1)Web Infrastructure & Ecommerce
i. Domain registration
The Internet Corporation of Assigned Names and Numbers (ICANN) is the governing body of the domain industry. A significant change in ICANN policy direction could impact the Group’s domain registration and management businesses. Earnings in this sub-segment are also impacted by exchange rate fluctuations as domains registered by the registrar business are often purchased form outside of Japan. (See VII(ii) Exchange rate risks).
ii. Hosting & Cloud
In the web hosting market customer needs are continuously evolving. Group services including GMO AppsCloud are constantly striving to respond rapidly to market trends, however if competition intensifies in this market, and the Group’s services fail to remain competitive, operating results could be impacted.
iii. Ecommerce
The ecommerce market is expanding and as a result participation in the online store solutions space is increasing. The Group aims to remain competitive by providing feature-rich services, however if we fail to maintain a competitive product offering or if we are not able to successfully position our products against the emerging freemium model, operating results may be impacted.
We expect the domestic craft market for handicrafts and craftwork for hobby to further expand with the development of the C2C handmade market which provides a place for C2C transactions between creators of the handiwork and buyers on the internet. However, if new regulations regarding C2C transactions or operation of C2C services are implemented to deal with troubles between creators and buyers, it may affect the Group’s business and results. Also, if the Group cannot maintain an advantage in technology development competition or branding over comptitors who started the service before the Group, the Group’s handmade business may not be able to achieve the expected growth.
iv. Security
As entry barriers in this market are high, there are only a few companies, including the Group, dominating the global

market. However if competition in this space increases, operating results could be impacted. The Group's security business operates on a global scale, and as such is also vulnerable to currency exchange fluctuation risks. (See VII(ii) Exchange rate risks).

v. Payment

Barriers to entry are high in the payment industry and as a result participation in the market in Japan is currently limited. In the expanding EC market, the Group aims to grow this business and grow earnings in this business by enhancing its product lineup and growing customer case. However, in this sub-segment, system faliure could impact service provision and be damaging to brand trust - and this could negatively impact consolidated operating results.

vi. Internet Provider

In the Internet provider business, the Group purchases and resells products from telecommunications companies. Changes to supplier agreements or contract conditions could negatively impact results in this business.

(2) Online Advertising & Media

i. Online Advertising

a.Market Trends

Both online and offline, company advertising budgets are influenced by economic climate and market conditions, and as a result these factors could potentially impact Advertising Agencies earnings.

b.Competition

The Internet Advertising market is a competive space and as the market grows, participation is expected to increase. The Group seeks to differentiate its service by offering proprietary products and accumulating operation know-how. However, if we do not remain competitive in online advertising, operating results may be impacted.

ii. Internet Media

a. Market Trends

The Group's main revenue source is fees from advertisements run on the media we operate. We aim to expand customer base by developing attractive new services and renewing existing services. However, if the Group is unable to satisfy users, operating results may be impacted.

b. Google

The Group provides SEO services to online businesses. Google is a major player in the search space, and if we are slow in responding to changes in search algorithims by Google or other major search engine operators, sales in this business may be impacted.

iii. Internet Research

a. Market Trends

In the Japanese Internet Research market, customers demand light, low-cost services. The company's business plan seeks to expand the Japanese market by transitioning users of traditional market research methods to online research while also activating new customers who have not previously undertaken market research. However, if market growth is not in line with the Group's expectations operating results and business operations may be impacted.

b. Competition Trends

Entry barriers to the online research market are not high, and we expect to see new players participating. We seek to differntiate our service by expanding our research panel and establishing strategic partnerships with other research panels, however if coompetition in the market intensifies, and our own services lose competitive edge, operating results may be impacted.

(3) Risks associated with the Internet Securities Segment

i. Items concerning legal regulations

GMO CLICK Securities and FX PRIME by GMO are licensed financial instruments business operators having received approval of Prime Minister of Japan under Article 29 of the Financial Instruments and Exchange Act, and the

companies are subject to the aforementioned act, other laws and Financial Services Agency regulation. In both companies, there is a risk that introduction of new laws or revision of existing laws, could impact the companies' ability to expand their businesses. In addition, the policy direction and regulations of the Financial Services Agency, have significant impact on the two companies' business activities, and could potentially impact operating results and financial condition.
As a financial instruments business operator and member of self-regulatory organizations, Japan Securities Dealers Association, Financial Futures Association of Japan and Type II Financial Instruments Firms Association, and a trading participant on the Tokyo and Osaka stock exchanges, GMO CLICK Securities is subject to the regulations of each of these organizations and exchanges. FX PRIME by GMO is also a member of the Financial Futures Association of Japan and is subject to the association's regulations.
Both companies operate under these laws and other regulations, and in the event of any violations resulting in damages claims, disposition or other measures, the Group's image, business, operating results or financial condition may be impacted. In addition, unexpected new or revised laws, rules or voluntary regulations introduced by relevant industry organizations may damage the Group, and its business activities or performance.
ii Risks related to Capital Adequacy Ratio
Pursuant to Article 46 paragraph 6 of the Financial Instruments and Exchange Act, financial instrument service operators are required to maintain a capital adequacy ratio of 120% or higher.
As of December 31, 2016 GMO CLICK Securities' capital adequacy ratio was at 481.0%, and FX PRIME by GMO at 703.2%. Both companies aim to strengthen financial base through measures including capital increases and maintaining internal reserves, thereby striving to maintain and improve this ratio. However, a significant drop in capital adequacy ratio due to unforeseen circumstances could impact the Group's business and operating results.
iii. Risks associated with Business Environment
GMO CLICK Securities offers products including spot trading and margin trading of securities, foreign exchange trading, stock market index futures, stock market index options, CFD trading and loan-based crowdfunding. FX PRIME by GMO provides foreign exchange trading. Both companies' profits are impacted by the securities market, the foreign exchange market and other environmental factors. The Group's operating results could be affected by a decline in trading volume caused by a downturn in investor confidence in the stock markets or foreign exchange markets resulting from economic, political or judicial factors or any amendment to tax regulations that weakens investor climate. In addition, a return to more intense price competition could impact operating results if transaction fees are reduced without being offset by an increase in transaction volume.
iv. Market Risks
GMO CLICK Securities and FX PRIME by GMO take a foreign exchange proprietary position to cover the opposite position in customer transaction in the foreign exchange margin transaction business. This position offsets trading with other customers, and risks associated with subsequent fluctuations in exchange rates are mitigated against by taking out cover transactions with counterparties.
However in the event of a GMO CLICK Securities systems malfunction, if the proprietary position is not appropriately resolved, or if no counterparty transaction takes place due to drastic fluctuations in the foreign exchange market or a counterparty's systems malfunction, a loss may be incurred due to the company's position and this may impact the Group's operating results and financial position.
v. Computer Systems
The majority of GMO CLICK Securities and FX PRIME by GMO transactions occur over the respective companies' systems and for this reason we recognize that stable systems operation is vital to our business.
GMO CLICK Securities and FX PRIME by GMO are continuously carrying out system maintenance, improving applications, and strengthening hardware and network infrastructure. However, system malfunction caused by unforeseen circumstances could result in customers being unable to trade. This could lead to loss of business opportunities or loss of customers due to negative publicity. Compensation claims from customers who suffer losses

as a result of system malfunction could impact the Group’s operating results. Depending on extent of the system malfunction, it could also impede business continuity.

vi. Customer Margin Risk

GMO CLICK Securities and FX Prime by GMO retain a deposit (in cash or securities) from customers conducting margin trading of securities, stock index futures or options amounting to a certain percentage of the transaction. If a customer’s valuation loss increases due to market fluctuation after the opening of a transaction, or if the price of the collateral securities falls and the customer’s deposit falls below the required amount, the company requests that the customer increase their deposit. However, if the customer does not respond to the request for payment the amount will be automatically billed against the customer's transaction and the transaction will be cancelled. The customer is charged for the difference if the settlement loss exceeds the deposit amount after the forced payment. However if the customer doesn’t respond to demand for payment, all or part of the amount may be written off as a bad debt loss.

(4) Smartphone Games

i. Market Trends

In this business it is essential that we provide products that appeal to consumers. The smartphone game market is intensely competitive and if we are unable to keep ahead of market trends operating results may be impacted.

ii. Platform Trends

The Group distributes games via app markets inculding AppStore and Google Play. Commission is paid to Apple and Google for revenue earned vias these platforms. Any increase in these commissions could impact earnings.

V Reliance on Chief Executive Officer

GMO Internet Group planning and operations are carried out by GMO Internet Group employees and executives. If unforeseen circumstance arises affecting a key member of the management team, in particular Group CEO, Masatoshi Kumagai, the Group’s ability to operate smoothly may be impacted.

VI Human Resource Risks

The most important resource the Group has is its human resources. Recruiting and development of staff is essential to both new service development and to ensuring quality of existing services. If competition human resource acquisition intensifies and it becomes difficult to attract staff or if we lose key staff to other companies, business performance may be impacted.

VII Risks related to Intangible Assets

i. Intellectual property risks

The Group protects its business legally by registering or obtaining permission to use intellectual property including patents, utility model rights, design rights and copyrights. However, if for any reason the Group’s intellectual property cannot be legally protected, or a registration becomes invalid or is revoked through legal processes, the Group’s businesses may be affected. Further, while the Group makes every effort not to infringe on rights held by third parties through investigating pre-registration rights, if there is an unintentional oversight in investigation it is possible that a patent infringement or other legal action may be filed against the Group. This could potentially materially impact the Group’s performance if restrictions are imposed on the Group’s business or the Group is required to pay a settlement, damages or other legal costs.

ii. Brand Risks

The Group has made a significant investment in establishing the “GMO” and “Z.com” brand under its “number one” strategy through advertising and promotion. However, if business plans are not executed as intended and an incident arises with a third party in the course of business or if fraudulent or improper activity committed by a Group employee is detected, the Group’s performance may be impeded as a result of damage to brand trust or the ability to attract customers.

Further if the Group’s brand becomes associated with the same or a similar word that comes to have negative connotations this may impact continued usage of that brand and as well as trust in the Group and ability to attract customers with the potential to impact earnings.

VIII Capital Market Risks

i. Interest Rate Fluctuation Risks

The Group predominantly procures business funding in the form of loans from financial institutions. As of the end of December 2016, consolidated interest-bearing liabilities (total short-term, long-term debt and bonds) stood at ¥71,512 million. The Group conducts interest rate swap transactions against part of its interest-bearing debt in order to stabilize interest rates and manage exposure to fluctuations. However, it is conceivable that financial market movements could impact Group performance.

ii. Exchange Rate Risks

On consolidated financial statements, revenue, costs, assets and liabilities in foreign subsidiaries are translated into Japanese yen. Some of the Group's businesses incur expenses that are paid to companies outside Japan in foreign currencies. The Group endeavors to minimize exposure to exchange rate fluctuation risks through hedge transactions using forward contract trades and other derivatives. However fluctuations in foreign exchange markets could potentially have a significant impact on Group performance.

IX Capital Procurement Risks

There are financial covenants attached to loan contracts, syndicate loan contracts, commitment line contracts and other loan contracts between the Group and various financial institutions. If the Group's financial condition weakens and the Group fails to meet the requirements of the covenants, the Group may be forced to forfeit profits, pay a higher interest rate, be subject to an accelerated repayment schedule, or be required to put up additional guarantees. Further, instability in the finance market environment, or damage to trust in the Group, could prevent the Group from being able to procure financing as planned and this could impact financial condition.

X System Risks

The Group specializes in an extensive range of Internet services and relies on outside sources for certain critical business functions such as Internet connectivity and data center maintenance and management. Natural disaster, disease, radioactive contamination, Internet traffic congestion for any reason, system malfunction outside the scope of our control, malicious attacks on the Group's servers, and hardware or software malfunction are all potential risk factors that could potentially cause full or partial malfunction of Group systems, loss of overwriting of important data, data leakage to a third party or a suspension of trading. Such incidences could impact Group performance due to lost profit opportunities, damage claims or administrative directives from regulatory bodies ordering a suspension of business or other action.

XI Risks associated with Internal Controls

In line with regulations of the Financial Instruments and Exchange Law concerning internal control and reporting, the Group continues to improve internal controls through measures including reinforced internal controls relating to internal controls, establishment of the Group Internal Audit department directly under the oversight of the Chief Executive Officer, and an internal reporting (whistleblower) process, (GMO Helpline).　However, in the event of a sudden increase in staff caused by rapid growth of the business, it is possible that current levels of control may become largely insufficient and in the event of an incident, trust in the Group may be impaired, and Group business and earnings may be affected.

XII. Natural Disaster Risks

Earthquakes, tsunamis, typhoons, bad weather, power outages, fire, disease, radioactive contamination, intense solar storms, meteorite showers and other natural disasters could impact the Group's business operation or continuity.

Further, political change, war, acts of terrorism, coup, foreign military attack or occupation, confiscation of Group property by a government, illegal repossession of Group property by a third party or other acts may also impact the Group's business operation or continuity. The Group makes every effort to mitigate against risks to business continuity however large-scale physical damage could impede the Group's ability to continue operations.

2. The Corporate Group

GMO Internet Group comprises GMO Internet, Inc. and its 106 consolidated subsidiaries. The following table shows the business areas included in each segment and the group companies operating in each business area.

Business Segment		Main Operations	Main Companies
Internet Infrastructure	Domain	Domain registration	GMO Internet, Inc. GMO Pepabo Inc. GMO DigiRock, Inc. GMO Brights Consulting Inc. GMO Registry, Inc.
	Hosting & Cloud	Cloud-based and traditional hosting	GMO Internet, Inc. GMO CLOUD, K.K. GMO Pepabo Inc.
	Ecommerce	Online store building SaaS services, online shopping mall operation, web design and management support	GMO Internet, Inc. GMO Pepabo Inc. GMO MAKESHOP, Inc. GMO Commerce, Inc. GMO SystemConsulting, Inc. GMO Fast Translation, Inc.
	Security	SSL certificate issue	GlobalSign K.K. GMO GlobalSign Ltd. GMO GlobalSign NV and 5 other companies
	Payment	Payment and ancillary services	GMO Payment Gateway, Inc. GMO Epsilon, Inc. GMO Payment Service, Inc.
	Provider (ISP)	Internet access provider	GMO Internet, Inc.
	Other businesses	Other	GMO Digital Lab, Inc.
Online Advertising & Media	Online advertising	Comprehensive online ad services including listing, mobile, ad network, reward, and affiliate advertising	GMO AD Partners, Inc. GMO TECH, Inc. GMO NIKKO, Inc. GMO AD Marketing, Inc.
	Internet media	Internet media development and operation, SEM media development	GMO Internet, Inc. GMO AD Partners, Inc. GMO TECH, Inc. GMO Pepabo Inc. GMO Media, Inc. GMO Insight, Inc. GMO Solution Partner, Inc. GMO Kumapon, Inc.
	Internet research & other business	Internet research business	GMO Research, Inc.
Internet Securities	Internet securities	Operation of online securities trading, FX trading services etc.	GMO CLICK Holdings, Inc. GMO CLICK Securities, Inc. FX Prime by GMO Corporation GMO-Z.com Forex HK Limited GMO-Z.com Forex UK Limited
Mobile Entertainment	Mobile entertainment	Smartphone and online game development and operation	GMO GameCenter, Inc. GMO GamePot, Inc.
Incubation	Venture capital	Investment in unlisted Internet ventures.	GMO VenturePartners, Inc. GMO VenturePartners Investment Limited Partnership Blog Business Fund Investment Limited Partnership

3. Management Policy
(1) Basic Management Principles
Under the corporate slogans Internet for Everyone, and Japan's Leading All-in Provider of Internet Services, the Group is focused on the provision of Internet infrastructure and services. The Group strives to inspire our customers and make them smile as well as to make a contribution to society through the cultivation of Internet culture and development of the industry.

(2) Management Objectives and Indicators
GMO Internet Group is committed to growing profits. The group considers the ratio of sales to operating profit, and the percentage change in operating profit to be a gauge of profitability and an important management indicator.
In a rapidly changing industry environment, we believe that mid-term target figures are of limited use and could in fact be misleading to investors and shareholders. Currently, we do not make disclose mid-term objectives, however we are continuously aiming for further improvement.

(3) Medium to Long-Term Business Strategies
The Group's Internet Infrastructure, Online Advertising & Media, Internet Securities, and Mobile Entertainment business segments operate under the corporate slogan Internet for Everyone.
In each of the four segments the Group aims to maintain a solid stable of number one products and aim to be Japan's Leading All-in Provider of Internet Service.
Going forward we expect external factors including increasing smartphone and tablet penetration, as well as advances in cloud technology in the Internet to further boost growth. At the same time, we are contributing to the growth and development of the Internet.

(4) Company Challenges
1. Group Strategy
(i) Fostering group synergy
The Group is comprised of 106 consolidated subsidiaries and is structured such that each company retains autonomous decision-making power. This is important in order to be able to act with speed and agility in the constantly evolving Internet market. At the same time, we aim to ensure that the Group shares a common vision, to generate and leverage synergies within the Group, and to ensure the efficient use of resources.
Going forward we will continue striving to improve Group management efficiency and cultivate synergy between business segments in order to ensure the most effective usage of management resources.

(ii) Global growth
The Group is actively expanding global business in security and other areas. We believe it is important to establish a position as an "All-in Provider of Internet Services" globally in order to expand into high-growth international markets.
We will aim further growth of ".shop" launched in the current fiscal year and promote upselling and cross-selling related to ".shop."
We will also use one-character domain name, Z.com as the Group's global brand with the objective of establishing a business platform in the global market and accelerating global expansion in the Internet Infrastructure and Securities segments.

2. Business Strategy
(i) Internet Infrastructure
In this segment the Group's services provide a business platform for online businesses. Products and services are developed in-house to enable us to best meet customer needs. The segment provides a strong revenue base for the Group and the majority of revenue is recurring.

(ii) Online Advertising & Media
In response to changes in the market environment, the Group is working on strengthening ad technology and developing proprietary products. Going forward we aim to accelerate the technology shift in the segment, focusing on smartphone advertising and app development with the objective of producing number 1 products as early as possible.

(iii) Internet Securities

In the Internet Securities segment we have built a highly cost-effective business, with all systems development, operation and maintenance carried out in-house. The segment operates under a cost-leadership strategy and is now actively expanding customer base in global markets. This year we were named the world's largest FX provider by trading volume for the fourth consecutive year. Going forward we will continue to improve trading costs and other aspects of the customer experience.

(iv) Mobile Entertainment
In the smartphone game market, development and operation capability have become increasingly important as the market evolves. By bringing all of our development in-house, we are accumulating expertise, and going forward we will concentrate on developing native games with the objective of producing a hit title.
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3. Technology Development
As discussed under business risks, Internet technology is always evolving and the market is highly competitive. Management must constantly ensure that the Group is developing cost competitive services that take advantage of leading technology. Key to this effort is maintaining a strong, knowledgeable technical workforce. The Group considers its engineers and creators to be a vital resource and places a high priority on recruitment, retention and training of staff.

4. Policy regarding choice of accounting standards
GMO Internet Group consolidated financial statements are based on Japanese GAAP in order to facilitate comparison between terms as well as other corporate financial statements.
Regarding IFRS standards, we are monitoring trends domestically and internationally with a view to adapting as necessary.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2015)	Current Fiscal Year (As of Dec 31, 2016)
Assets		
Current Assets		
Cash and deposits	75,979	90,282
Trade notes and accounts receivable	12,528	15,947
Operational investment securities	2,236	3,551
Securities segment deposits	254,894	256,481
Securities segment margin transaction assets	98,229	84,439
Securities segment short term guarantee deposits	45,547	41,264
Securities segment variation margin paid	24,390	24,502
Deferred tax asset	1,621	1,564
Other	16,767	37,034
Provision for doubtful debts	-848	-1,164
Total Current Assets	531,347	553,903
Fixed Assets		
Tangible fixed assets		
Buildings and structures (net amount)	1,011	1,447
Tools and equipment (net amount)	2,151	2,322
Lease assets (net amount)	3,147	3,275
Other (net amount)	282	585
Total tangible fixed assets	6,592	7,630
Intangible fixed assets		
Goodwill	2,224	3,857
Software	4,657	4,327
Other	1,318	7,438
Total intangible fixed assets	8,200	15,623
Investments and other assets		
Investment securities	4,329	7,832
Deferred tax asset	1,448	1,175
Other	3,079	2,995
Provision for doubtful debts	-371	-341
Total investments and other assets	8,486	11,661
Total Fixed Assets	23,278	34,915
Total Assets	554,626	588,819

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2015)	Current Fiscal Year (As of Dec 31, 2016)
Liabilities		
Current liabilities		
Trade notes and accounts payable	5,304	7,822
Short term debt	33,849	60,204
Current portion of long term debt	679	2,560
Bonds to be redeemed within one year	2,600	-
Amount payable	12,043	21,251
Securities segment deposits received	31,562	39,859
Securities segment margin transaction liability	71,590	47,583
Securities segment guarantees received	273,518	267,796
Securities segment variation margin received	4,083	4,105
Accrued corporate tax etc.	5,849	1,666
Provision for bonuses	673	931
Provision for bonuses to directors	814	74
Advance payment received	5,221	6,315
Deposits received	29,704	37,407
Other	6,745	9,249
Total Current Liabilities	484,240	506,828
Fixed Liabilities		
Long term debt	2,698	8,748
Deferred tax liability	56	102
Other	3,091	4,797
Total Fixed Liabilities	5,846	13,647
Statutory Reserve		
Financial instruments transaction liability reserve	2,382	2,162
Total Statutory Reserve	2,382	2,162
Total Liabilities	492,469	522,639
Net Assets		
Shareholders' Equity		
Capital stock	5,000	5,000
Capital reserve	3,836	544
Earned surplus	30,189	33,328
Treasury stock	-0	-2
Total Shareholders' Equity	39,024	38,870
Other Comprehensive Income		
Other securities valuation differences	217	299
Hedging profit/loss carried forward	13	65
Currency translation account	385	291
Total Other Comprehensive Income	617	656
Equity Warrants	49	80
Non-controlling Minority Equity	22,465	26,571
Total Net Assets	62,156	66,179
Liabilities, Net Assets Total	554,626	588,819

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

Consolidated Profit & Loss Statement

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2015-12.31.2015)	Current Fiscal Year (01.01.2016-12.31.2016)
Net Sales	126,337	135,026
Cost of Sales	60,068	66,778
Gross Profit on Sales	66,269	68,248
Sales, General & Administrative Expenses	51,465	51,231
Operating Profit	14,803	17,017
Non Operating Revenue		
Interest received	46	38
Dividends received	63	69
Currency translation gain	85	-
Equity method investment gain	41	-
Expired points gain	50	29
Grants	81	60
Other	228	168
Total Non Operating Revenue	598	366
Non Operating Expenses		
Interest paid	163	121
Commission paid	152	152
Currency translation loss	-	151
Equity method investment loss	-	126
Other	228	144
Total Non Operating Expenses	544	696
Ordinary Profit	14,857	16,686
Extraordinary Profit		
Gain on sale of investment securities	164	209
Gain on sale of stock in subsidiaries and affiliates	12,241	105
Gain on step acquisitions	-	425
Reversal of reserve for securities transaction liability	-	219
Other	1,212	10
Total Extraordinary Profit	13,618	971
Extraordinary Loss		
Loss on valuation of investment securities	113	140
Impairment loss	1,925	502
Provision for securities transaction liability reserve	415	-
Other	874	188
Total Extraordinary Loss	3,328	831
Net Profit before Adjustment for Tax etc.	25,148	16,826
Corporate, Municipal and Enterprise Taxes	10,575	6,112
Corporate Tax etc. Adjustment	-257	339
Total Corporate Taxes etc.	10,317	6,451
Net Profit	14,831	10,374
Profit attributable to non-controlling Interests	1,411	3,139
Profit attributable to Owners of the Parent	13,419	7,234

Other Comprehensive Income

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2015-12.31.2015)	Current Fiscal Year (01.01.2016-12.31.2016)
Net Profit	14,831	10,374
Other Comprehensive Income		
Other securities valuation differences	162	421
Hedging profit/loss carried forward	24	51
Currency translation adjustment account	-269	-303
Share of other comprehensive income(loss) of associates accounted for using equity method	-	-40
Total other comprehensive income	-83	128
Comprehensive Income	14,747	10,503
(Breakdown)		
Comprehensive income attributable to Owners of the Parent	13,087	7,274
Comprehensive income attributable to Non-controlling Interests	1,659	3,228

(3) Consolidated Statement of Changes in Shareholders' Equity, etc.

Previous Accounting Term (01.01.2015 – 12.31.2015)

(Unit: ¥millions)

	Shareholder's Equity				
	Capital	Capital Reserve	Earned Surplus	Treasury Stock	Total Shareholders' Equity
Beginning balance	100	8,736	19,448	-0	28,283
Changes during term					
Dividends			-2,709		-2,709
Profit attributable to Owners of the Parent			13,419		13,419
Increase in earned surplus due to increase in consolidated subsidiaries			81		81
Decrease in earned surplus due to increase in consolidated subsidiaries			-50		-50
Transfer from capital reserve to capital	4,900	-4,900			—
Changes in items other than shareholders' equity in the current term (net amount)					
Total changes during term	4,900	-4,900	10,740	—	10,740
Balance at end of current term	5,000	3,836	30,189	-0	39,024

(Unit: ¥millions)

	Other Comprehensive Income				Equity Warrants	Non-controlling Minority Equity	Total Net Assets
	Other Securities Valuation Differences	Hedging Profit/Loss Carried Forward	Currency Translation Account	Total Other Comp Income			
Beginning balance	256	-10	703	949	20	14,623	43,876
Changes during term							
Dividends							-2,709
Profit attributable to Owners of the Parent							13,419
Increase in earned surplus due to increase in consolidated subsidiaries							81
Decrease in earned surplus due to increase in consolidated subsidiaries							-50
Transfer from capital reserve to capital							—
Changes in items other than shareholders'equity in the current term (net amount)	-38	24	-317	-332	29	7,841	7,539
Total changes during term	-38	24	-317	-332	29	7,841	18,280
Balance at end of current term	217	13	385	617	49	22,465	62,156

Current Accounting Term (01.01.2016 – 12.31.2016)

(Unit: ¥millions)

	Shareholders' Equity				
	Capital	Capital Reserve	Earned Surplus	Treasury Stock	Total Shareholders' Equity
Beginning balance	5,000	3,836	30,189	-0	39,024
Changes during term					
Dividends			-4,095		-4,095
Profit attributable to Owners of the Parent			7,234		7,234
Acquisition of treasury stock				-2,234	-2,234
Retirement of treasury stock		-2,233		2,233	—
Changes in shareholders' interests due to transaction with non-controlling interests (net amount)		-1,059			△1,059
Changes in items other than shareholders' equity in the current term (net amount)					
Total changes during term	—	-3,292	3,139	-1	-154
Balance at end of current term	5,000	544	33,328	-2	38,870

(Unit: ¥millions)

	Other Comprehensive Income				Equity Warrants Other	Non-controlling Minority Equity	Total Net Assets
	Other Securities Valuation Differences	Hedging Profit/Loss Carried Forward	Currency Translation Account	Total Other Comp Income			
Beginning balance	217	13	385	617	49	22,465	62,156
Changes during term							
Dividends							-4,095
Profit attributable to Owners of the Parent							7,234
Acquisition of treasury stock							-2,234
Retirement of treasury stock							—
Changes in shareholders' interests due to transaction with non-controlling interests (net amount)							-1,059
Changes in items other than shareholders'equity in the current term (net amount)	82	51	-93	39	30	4,106	4,176
Total changes during term	82	51	-93	39	30	4,106	4,022
Balance at end of current term	299	65	291	656	80	26,571	66,179

(4) Consolidated Statement of Cash Flows

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2015-12.31.2015)	Current Fiscal Year (01.01.2016-12.31.2016)
Cash Flow from Operating Activities		
Net Profit before tax etc.	25,148	16,826
Depreciation expenses	4,409	4,528
Impairment loss	1,925	502
Amortization of goodwill	1,502	730
Change in provision for doubtful debts (-represents decrease)	393	280
Change in financial instruments transaction liability reserve (-represents decrease)	415	-219
Change in provision for bonuses (- represents decrease)	962	-516
Interest and dividends received	-109	-107
Interest paid	163	121
Gain or loss on sale of investment securities (- represents gain)	-164	-209
Gain or loss on sale of stock in affiliates (- represents gain)	-12,132	-105
Change in accounts receivable (-represents increase)	-2,186	-1,343
Change in purchase debts (- represents decrease)	-670	-5,243
Change in amount payable (- represents decrease)	2,379	8,921
Change in deposits received (- represents decrease)	8,154	6,716
Change in deposits in securities segment (- represents increase)	-26,913	-1,586
Change in short term guarantee deposits in securities segment (-represents increase)	-15,169	4,282
Change in margin variation paid and received in securities segment	-15,175	-89
Changes in deposits and guarantees received in securities segment (- represents decrease)	42,268	2,574
Changes in margin trading assets and liabilities in securities segment	-15,928	-10,215
Other	-5,907	-11,876
Sub total	-6,635	13,970
Interest and dividends received	115	113
Interest paid	-472	-449
Corporate tax etc. paid	-5,632	-10,516
Cash Flow from Operating Activities	-12,624	3,118
Cash Flow from Investing Activities		
Payment of fixed term deposit	-160	-0
Income from return of fixed term deposit	3,623	900
Expenditure on acquisition of tangible fixed assets	-1,045	-1,541
Expenditure on acquisition of intangible fixed assets	-2,228	-7,371
Expenditure on acquisition of investment securities	-2,486	-4,047
Income accrued on sale of investment securities	248	253
Expenditure on acquisition of subsidiary stock	-155	-
Income accrued on sale of subsidiary stock	15,463	-
Income accrued on the acquisition of subsidiary stock resulting in change in scope of consolidation	89	1,074
Expenditure on the acquisition of subsidiary stock resulting in change in scope of consolidation	-523	-1,412
Income accrued on the sale of subsidiary stock resulting in change in scope of consolidation	272	804
Other	-323	134
Cash Flow from Investing Activities	12,774	-11,204

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2015-12.31.2015)	Current Fiscal Year (01.01.2016-12.31.2016)
Cash Flow from Financing Activities		
Income accrued on short term loans	222,198	367,098
Expenditure on repayment of short term loans	-207,593	-340,798
Income accrued on long term loans	2,004	8,600
Expenditure on repayment of long term loans	-9,781	-685
Income accrued on the issue of bonds	2,600	-
Redemption of bonds	-	-2,600
Gain on sale and leasebacks	-	1,850
Repayment of finance lease and installment obligations	-1,791	-1,869
Income from investment partnership	1,015	880
Expenditure on repayment to investment partner	-1,077	-283
Income from disposal of treasury stock in subsidiary	206	10
Purchase of treasury stock in subsidiary	-	-223
Revenue accrued from non-controlling minority equity	5,262	528
Acquisition of treasury stock	-	-2,236
Payment of dividends	-2,713	-4,106
Payment of dividends to non-controlling minority shareholders	-806	-1,260
Expenditure on acquisition of subsidiary stock without change in scope of consolidation	-	-1,153
Cash Flow from Financing Activities	9,523	23,749
Currency Translation Adjustment on Cash and Equivalents	-85	-466
Change in Cash and Equivalents (- represents decrease)	9,587	15,196
Balance of Cash and Equivalents at Beginning of Term	65,038	74,929
Increase in Cash and Equivalents following Increase in Consolidation	303	-
Balance of Cash and Equivalents at End of Term	74,929	90,125

(5) Notes to consolidated financial statements

Notes regarding the Going Concern Assumption

None

Significant items concerning the consolidated financial statements

1. Items concerning the scope of consolidation

(1) Number of consolidated subsidiaries: 106 (including 5 partnerships)

Names of significant consolidated subsidiaries

GMO AD Partners, Inc.
GMO CLOUD, KK.
GMO Payment Gateway, Inc.
GMO Pepabo, Inc.
GMO CLICK Holdings, Inc.
GMO TECH, Inc.
GMO Research, Inc.
GMO Media, Inc.

The following companies were added to the consolidation during the current fiscal year: shares of MACRO KIOSK BERHAD, Inc. and 20 other companies were newly acquired, additional shares of GMO FINANCIAL GATE, Inc. and one other company were acquired, GMO Wallet and 2 other companies were newly established.
The following companies were excluded from the consolidation during the current fiscal year for the following reasons: GMO GlobalSign Oy and one other company shares were sold. Brights & Company, Inc. and 2 other companies were absorbed by a GMO Internet consolidated subsidiary, GMO GameCenter Korea, Inc. were disbanded.

(2) Names of significant non- consolidated subsidiaries

Patent Incubation Capital, Inc.

Reasons for exclusion from the consolidation

All 21 non-consolidated subsidiaries are small-scale companies. None of the companies' total assets, sales, net profit (equal to the equity share) and earned surplus (equal to the equity share) totals have a significant impact on consolidated financial statements.

2. Items concerning application of equity method

(1) Number of companies to which the equity method is applied: 4

Names of significant equity method affiliates:

Aozora Trust Bank, Inc.

(2) Major Non-Consolidated Subsidiaries and Affiliated Companies not accounted for by Equity Method

Patent Incubation Capital, Inc.

The net profit and loss (equal to the equity share), and earned surplus (equal to the equity share), etc. of each of the 21 non-consolidated subsidiaries and 4 affiliated companies including HUMEIA REGISTRY Co. Ltd, and 3 companies has immaterial impact on overall performance. For this reason they are not accounted for as equity method affiliates.

3. Items concerning the fiscal years, etc. of subsidiaries

The closing date of the fiscal year differs from the consolidated fiscal year in the following consolidated subsidiaries.

Close of fiscal year: September 30

GMO Payment Gateway, Inc.

GMO Epsilon, Inc. and 8 other companies

Close of fiscal year: March 31

GMO CLICK Holdings, Inc. and 8 other companies

Close of fiscal year: May 31

GMO Venture Partners 4 Investment Limited Partnership and 3 other companies

In regard to GMO Venture Partners 4 Investment Limited Partnership and 3 other companies, consolidated financial statements are based on provisional statements provided by the subsidiaries on November 30.

Consolidated statements are adjusted as required to reflect significant transactions that occur after these dates.

4. Items concerning accounting standards

(1) Method and standards for the evaluation of assets

(i) Marketable securities

Available for sale securities

Market value method (salable value determined by moving average method)

Bonds held to maturity

Amortized cost (straight-line) method

Other marketable securities (including operating investment securities)

Securities with a market value:

Stated at actual market value on the closing day of the fiscal term. All valuation differences are included directly in net assets. The salable value is determined by the moving average method.

Securities with no market value:

Stated at cost determined by the moving average method

(ii) Derivatives transactions

Market value method

(2) Depreciation of major depreciable assets

(i) Tangible fixed assets (excluding lease assets)

Declining balance method. Leasehold improvements acquired after April 1, 2016 are depreciated using the straight-line method.

Useful life:

Buildings and structures: 3-50 years

Tools and equipment: 2-20 years

(ii) Intangible fixed assets (excluding lease assets)

Straight-line method

Computer software used by the company is amortized using the straight line method over an estimated useful life of (usually) five years.

(iii) Lease Assets

Finance lease transactions that do not transfer ownership

Straight-line method with the number of years remaining in the lease as lease period and 0 as the remaining amount

(3) The calculation of significant reserves

(i) Allowance for doubtful debt

The allowance for doubtful debt is a provision for loss resulting from bad debt occurring on trade accounts receivable. For general accounts receivable doubtful debt is individually considered to determine the likely recoverable amount using the loan loss ratio and the amount considered unlikely to be redeemed is reserved.

(ii) Allowance for bonuses

The current portion of the expected bonus payment is reserved to provide for employee bonuses.

(iii) Allowance for Director bonuses

An amount is reserved for the payment of bonuses to Directors based on salary forecasts.

(iv) Financial transaction liability reserve

This reserve is provided in accordance with Article 46-5 of the Financial Instruments and Exchange Act and Article 175 of the related Cabinet Ordinance concerning securities companies in order to provide for losses arising from securities transaction related incidents in some consolidated subsidiaries.

(4) Hedge accounting method

(i) Hedge accounting method

Generally deferred hedge treatment is applied. However, where conditions for appropriation treatment are met appropriation treatment is used for foreign exchange contracts.

(ii) Hedging instruments and hedged items

Hedging instrument: foreign exchange contracts

Hedged items: foreign currency debt, foreign currency forecast transactions

(iii) Hedging policy

The Company trades currency to mitigate exchange rate fluctuation risk. Individual contracts are drawn for each hedge item.

(iv) Method of evaluating effectiveness of hedge accounting transactions

The effectiveness of each derivative transaction is evaluated by assessing the amount of debt/credit, hedge transaction conditions and other factors on an individual basis.

(5) Method and term of goodwill amortization

Goodwill is amortized over a reasonable period within 20 years using the straight-line method.

(6) Scope of the Consolidated Cash Flow Statement

Funds (cash and equivalents) stated in the consolidated cash flow statements 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.

(7) Other significant items relating to preparation of consolidated financial statements

(i) Accounting treatment of consumption tax etc.

Consumption tax is separately accounted for by excluding it from each transaction amount.

Consumption tax not accounted for by the exclusion method is accounted for as an expense in the current consolidated fiscal year. However, consumption tax not excluded relating to fixed assets is reported as a long term advance payment and amortized equally over 5 years.

(ii) Accounting treatment of foreign exchange margin transactions

In regard to foreign exchange margin transactions, the settlement gain or loss on transactions, gains or losses on valuation and the swap point on outstanding positions is reported as net sales.

Gain or loss on appraisal is the difference between the market value and the exchange rate in the outstanding position on foreign exchange margin transactions calculated on each transaction statement. These are totaled and the amount reported as “Securities segment variation margin paid” or “Securities segment variation margin received” on the consolidated balance sheet.

In addition, customer assets (deposits) in Japan are managed separately in accordance with Article 143 paragraph 1.1 of the Cabinet Office Ordinance on Financial Instruments Business, etc. pursuant to Article 43 paragraph 3.1 of Financial Instruments and Exchange Act, and customer assets in overseas consolidated subsidiaries are managed separately from proprietary assets in accordance with local laws, and they are reported as “Securities segment deposits” in consolidated balance sheet.

(iii) Application of consolidated tax payment system

Consolidated tax payment system is applied

(Changes in accounting policy)

(Application of Standards relating to Business Combinations)

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

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

As a result, Capital reserve as of December 31, 2016 decreased by ¥1,059 million.

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

Capital reserve in consolidated statement of changes in shareholders’ equity, etc. as of December 31, 2016 decreased by ¥1,059 million.

As the impact of this change on operating profit, ordinary profit, and net profit before adjustment for tax etc. and per share information was insignificant, the disclosure is omitted.

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

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

The impact of this change on the consolidated financial statements for the current fiscal year is insignificant.

Revisions in Method of Presentation

Consolidated Profit and Loss Statement

Depreciation expense was reported as a separate line item in Non-operating expenses in the previous fiscal year, but it is included in Other from this current fiscal year as it became immaterial. The consolidated financial statements of the previous fiscal year were reclassified to reflect this change in presentation.

As a result, ¥55 million of Depreciation expense reported in Non-operating expenses in the previous fiscal year's consolidated statement of income is reclassified to Other.

Gain on change in equity investees was reported as a separate line item in Extraordinary profit in the previous fiscal year, but it is included in Other from this current fiscal year as it became immaterial. The consolidated financial statements of the previous fiscal year were reclassified to reflect this change in presentation.

As a result, ¥1,208 million of Gain on change in equity investees reported in Extraordinary profit in the previous fiscal year's consolidated statement of income is reclassified to Other.

Contract cancellation loss was reported as a separate line item in Extraordinary loss in the previous fiscal year, but it is included in Other from this current fiscal year as it became immaterial. And Loss on valuation of investment securities included in Other in Extraordinary loss in the previous fiscal year is reported as a separate line item from this current fiscal year as it became material. The consolidated financial statements of the previous fiscal year were reclassified to reflect these changes in presentation.

As a result, ¥532 million of Contract cancellation loss reported in Extraordinary loss in the previous fiscal year's consolidated statement of income is reclassified to Other. Loss on valuation of investment securities included in Other is reclassified to Loss on valuation of investment securities of ¥113 million.

Segment Data

1. Overview of Reportable Segments

(1) Method of determining Reportable Segments

Segment reporting enables an overview of financial condition in each segment of the GMO Internet Group. Segmentation is periodically reviewed in order to enable the Board of Directors to make decisions regarding allocation of resources and evaluate business performance.

GMO Internet Group operates a comprehensive line up of Internet related services. The Group's operations are divided into five business segments according to service type. The five segments are: Internet Infrastructure, Online Advertising & Media, Internet Securities, Mobile Entertainment, and Incubation.

The Internet Infrastructure segment provides services that comprise the fundamental infrastructure for customers with online businesses. Services include domain, hosting & cloud, Internet security, ecommerce solutions, and payment. The Online Advertising & Media segment provides marketing solutions for customers with online businesses, and includes online advertising, Internet media and Internet research sub-segments. The Internet Securities segment operates online securities and foreign exchange trading services. The Mobile Entertainment segment develops and operates smartphone games and online games. The Incubation segment invests primarily in unlisted Internet related businesses.

(2) Changes in reportable segments

From the current fiscal year, standards for the allocation of expenses were changed in order to more appropriately represent performance in each segment. Segment information of the previous fiscal year is prepared using the new allocation standards and presented in Previous Accounting Term in "3. Notes regarding revenue, profit or loss, assets and liabilities in reportable segments."

2. Calculation of Net Sales, Profit or Loss, Assets and Liabilities in Reportable Segments

All items relating to accounting treatment in reportable segments are listed in the section "Significant items concerning consolidated financial statements". Profit in reportable segments is operating profit. Revenue and transfers between segments are based on the same transaction conditions as are applied to ordinary transactions with external customers. Please note the Company does not report assets and liabilities by segment.

3. Notes regarding revenue, profit or loss, assets and liabilities in reportable segments

Previous Accounting Term (01.01.2015 – 12.31.2015)

(Unit: ¥millions)

	Segment						Other (*1)	Adjustment (*2)	Total (*3)
	Internet Infrastructure	Online Advertising & Media	Internet Securities	Mobile Entertainment	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	54,627	37,061	29,805	4,042	793	126,329	7	—	126,337
Internal transactions and transfers	785	3,509	0	55	—	4,350	—	-4,350	—
Total	55,412	40,570	29,805	4,098	793	130,680	7	-4,350	126,337
Operating profit/loss (-)	4,311	1,202	9,666	-755	332	14,758	-92	137	14,803
Other items									
Depreciation expenses	2,771	387	879	370	0	4,408	0	—	4,409

(notes) 1. The Other item represents the culture incubation business and other businesses not included in reportable segments.

2.The segment profit adjustment (¥ 137 million) is an adjustment for internal segment transactions.

3. Total segment profit is adjusted to the operating profit amount presented on the consolidated statement of income.

Current Accounting Term (01.01.2016 – 12.31.2016)

(Unit: ¥millions)

	Segment						Other (*1)	Adjustment (*2)	Total (*3)
	Internet Infrastructure	Online Advertising & Media	Internet Securities	Mobile Entertainment	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	64,712	40,284	27,347	2,053	448	134,847	179	—	135,026
Internal transactions and transfers	701	3,901	2	84	—	4,690	15	-4,706	—
Total	65,414	44,185	27,350	2,138	448	139,537	195	-4,706	135,026
Operating profit/loss (-)	6,598	1,293	9,611	-497	-29	16,976	-106	147	17,017
Other items									
Depreciation expenses	3,026	429	855	184	0	4,497	31	—	4,528

(notes) 1. The Other item represents the culture incubation business and other businesses not included in reportable segments.

2. The segment profit adjustment (¥147 million) is an adjustment for internal segment transactions.

3. Total segment profit is adjusted to the operating profit amount presented on the consolidated statement of income.

Related Information

Previous Accounting Term (01.01.2015 – 12.31.2015)

1. Data classified by product/service

This section is omitted because it is identical to the Segment Data section.

2. Data classified by geographic region

(1) Net Sales

This section is omitted because sales to customers in Japan account for over 90% of net sales stated on the consolidated statement of income.

(2) Tangible fixed assets

This section is omitted because over 90% of tangible fixed assets stated on the consolidated balance sheet are located in Japan.

3. Data classified by major customer

No customer accounts for more than 10% of revenue stated on the consolidated statement of income and therefore this section is omitted.

Current Accounting Term (01.01.2016 – 12.31.2016)

1. Data classified by product/service

This section is omitted because it is identical to the Segment Data section.

2. Data classified by geographic region

(1) Net Sales

This section is omitted because sales to customers in Japan account for over 90% of net sales stated on the consolidated statement of income.

(2) Tangible fixed assets

This section is omitted because over 90% of tangible fixed assets stated on the consolidated balance sheet are located in Japan.

3. Data classified by major customer

No customer accounts for more than 10% of revenue stated on the consolidated statement of income and therefore this section is omitted.

Data relating to impairment loss on fixed assets by reportable segment

Previous Accounting Term (01.01.2015 – 12.31.2015)

(Unit: ¥millions)

	Segment						Other	Adjustment	Total
	Internet Infrastructure	Online Advertising & Media	Internet Securities	Mobile Entertainment	Incubation	Total			
Impairment loss	699	189	—	1,035	—	1,925	—	—	1,925

Current Accounting Term (01.01.2016 – 12.31.2016)

(Unit: ¥millions)

	Segment						Other	Adjustment	Total
	Internet Infrastructure	Online Advertising & Media	Internet Securities	Mobile Entertainment	Incubation	Total			
Impairment loss	137	13	23	328	—	502	—	—	502

Data regarding goodwill amortization and unamortized balance by reportable segment

Previous Accounting Term (01.01.2015 – 12.31.2015)

(Unit: ¥millions)

	Segment						Other	Adjustment	Total
	Internet Infrastructure	Online Advertising & Media	Internet Securities	Mobile Entertainment	Incubation	Total			
Amortization in current term	530	316	531	123	—	1,502	—	—	1,502
Balance at end of term	1,252	910	43	0	—	2,207	16	—	2,224

Current Accounting Term (01.01.2016 – 12.31.2016)

(Unit: ¥millions)

	Segment						Other	Adjustment	Total
	Internet Infrastructure	Online Advertising & Media	Internet Securities	Mobile Entertainment	Incubation	Total			
Amortization in current term	352	330	43	0	—	727	3	—	730
Balance at end of term	2,882	674	—	286	—	3,844	13	—	3,857

Data regarding profit arising from negative goodwill by reportable segment

None.

Per Share Data

Item	Previous Consolidated Fiscal Year (01.01.2015 – 12.31.2015)	Consolidated Fiscal Year (01.01.2016 – 12.31.2016)
Shareholders' Equity Per Share	336.50	340.92
Net Profit per Share	113.91	62.26
Net Profit per Share (diluted)	112.99	60.89

*Note: Calculation of net profit per share and net profit per share (diluted) is based on the following:

Item	Previous Consolidated Fiscal Year (01.01.2015 – 12.31.2015)	Consolidated Fiscal Year (01.01.2016 – 12.31.2016)
Net Profit per Share		
Profit attributable to Owners of the Parent (¥millions)	13,419	7,234
Non-common stock (¥millions)	-	-
Net profit related to common stock (¥millions)	13,419	7,234
Average number of common shares outstanding in the period	117,806,777	116,300,816
Average number of treasury shares in the period	-1,811	-98,939
Average number of shares in the period	117,804,966	116,201,877
Net Profit per share (diluted)		
Net profit adjustment (¥millions)	-108	-158
(including adjustment for convertible securities in consolidated subsidiaries) (¥millions)	(-108)	(-158)
Increase in no. of common shares	-	-
Convertible securities that do not dilute net profit per share and are not included in the calculation of net profit per share (diluted)	1. Consolidated Subsidiaries i. GMO AD Partners, Inc. Stock Options 5th Round Common shares:125,000 ii. GlobalSign K.K. 2006 Stock Options Common shares: 651 iii. GMO Research, Inc. 2014 Stock Options 3rd Round Common shares: 23,250 iv. GMO CLICK Holdings, Inc. Equity Warrants 2nd Round Common shares: 2,700,000 v. GMO TECH, Inc. Equity Warrants 1st Round Common shares: 15,880 vi.GMOPepabo, Inc Equity Warrants 2nd Round Common shares: 76,800 vii GMO Media Inc. Equity Warrants 1st Round Common shares: 109,200	1. Consolidated Subsidiaries i. GMO AD Partners, Inc. Stock Options 4th Round Common shares:39,600 Stock Options 5th Round Common shares:92,600 ii. GMO CLICK Holdings, Inc. Equity Warrants 2nd Round Common shares: 2,660,000 iii. GMO TECH, Inc. Equity Warrants 1st Round Common shares: 12,215 iv. GMOPepabo, Inc Equity Warrants 2nd Round Common shares: 73,800

Significant Post Balance Sheet Events

1. Acquisition of Treasury Stock

At a Board of Directors meeting convened on February 6, it was resolved to acquire treasury stock pursuant to Article 459-1 of the Japanese Companies Act and the company's Articles of Incorporation. Details are as follows:

(1) Reason for acquisition: To improve shareholder returns and capital efficiency
(2) Type of shares to be acquired: GMO Internet common shares
(3) Total number of shares to be acquired: 900,000 (maximum)
(4) Total cost of share acquisition: Up to JPY 1,183 million
(5) Acquisition period: February 7, 2017 through to December 29, 2017
(6) Acquisition method: Market purchase