

Fiscal Year 2017 Consolidated Financial Results (Japanese GAAP)

February 9, 2018

Name of Listed Company: GMO Internet, Inc.
 Exchange Listing: Tokyo Stock Exchange Stock Code: 9449 URL: <http://www.gmo.jp/en>
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 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 2017 (01.01.2017- 12.31.2017)

(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	%
FYE12/2017	154,256	14.2	17,642	3.7	17,315	3.8	8,030	11.0
FYE12/2016	135,026	6.9	17,017	14.9	16,686	12.3	7,234	-46.1

(Note) Comprehensive Income: FYE 12/2017 ¥ 12,413 million (18.2%), FYE12/2016 ¥10,503 million (-28.8%)

	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
	¥	¥	%	%	%
FYE12/2017	69.44	68.76	19.3	2.6	11.4
FYE12/2016	62.26	60.89	18.3	2.9	12.6

(Reference) Earnings/Loss on Equity Method Investment: FYE 12/2017 ¥411 million, FYE 12/2016 ¥126 million

(2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio	Shareholders' Equity per Share
	¥ millions	¥ millions	%	¥
FYE12/2017	719,286	74,354	6.1	379.69
FYE12/2016	588,819	66,179	6.7	340.92

(Reference) Shareholders' Equity: FYE 12/2017 ¥43,697 million, FYE 12/2016 ¥39,527 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
FYE12/2017	5,481	-13,212	35,074	117,817
FYE12/2016	3,118	-11,204	23,749	90,125

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	%	%
FYE12/2016	5.00	5.00	5.00	6.00	21.00	2,434	33.7	6.2
FYE12/2017	5.00	6.00	6.00	6.00	23.00	2,656	33.1	6.4
FYE12/2018 (forecast)	—	—	—	—	—	—	—	—

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

The Group's business "Internet finance business" and "virtual currency business" are economic conditions and financial markets, Virtual currency and other market conditions, it is difficult to predict business performance, so we will not disclose consolidated business results and dividend forecast for the fiscal year ending December 31, In order to compensate for this point, we plan to monthly disclose the rate of the virtual currency mining business, which has a significant influence on business performance. GMO Financial Holdings Co., Ltd., a subsidiary, also discloses monthly sales indicators such as foreign exchange margin trading volume, stock brokerage trading price, customer account number and operating revenue.

*Notes

(1) Significant changes in subsidiaries in the current term (transfer of a subsidiary resulting in change in scope of consolidation):

New: 1 company (Shift-One Inc.) Excluded: None

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

1. Changes resulting from revisions to accounting policy: None
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)
2. No. of treasury shares at end of term
3. Average no. of shares during term

FYE 12/2017	115,944,677	FYE 12/2016	115,944,677
FYE 12/2017	1,1347	FYE 12/2016	1,811
FYE 12/2017	115,644,138	FYE 12/2016	116,201,877

(Reference) Summary of Non-Consolidated Financial Results

1. Non-consolidated Results in the Fiscal Year Ended (percentages shown represent year-on-year % change)

December 2017 (01.01.2017 - 12.31.2017) (1)

Consolidated Operating Results

	Net Sales		Operating Profit		Ordinary Profit		Net Profit	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
FYE12/2017	37,732	17.3	1,052	18.7	5,743	13.5	4,518	52.
FYE12/2016	32,177	11.0	887	664.4	5,058	49.8	2,960	-66.2

	Net Profit per Share	Net Profit per Share (Diluted)
	¥	¥
FYE12/2017	39.06	—
FYE12/2016	25.47	—

(2) Non-consolidated Financial Condition

	Total Assets		Net Assets		Shareholders' Equity Ratio		Shareholders' Equity per Share	
	¥ millions		¥ millions		%		¥	
FYE12/2017	76,919		17,405		22.6		151.22	
FYE12/2016	39,776		17,219		43.3		148.51	

(Reference) Shareholders' Equity: FYE 12/2017 ¥17,405 million, FYE 12/2016 ¥17,219 million

*The audit of Financial statement is exceptional.

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

Although the Company aims to pay dividends quarterly with the aim of paying a payout ratio of 33% to net income attributable to the owners of the parent, Because it is difficult to do, the anticipated dividend forecast at this time is undecided. We will promptly disclose dividend forecast when it becomes possible to disclose.

On February 9, 2018, we plan to hold financial briefings for institutional investors and analysts. Regarding the patterns and explanation contents (voice), we plan to publish it on our company website (<http://ir.gmo.jp/en/>) promptly after the meeting, along with explanatory explanation materials used on the day.

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1. Overview of Operating Results and Financial Condition

(1) Overview of operating results

Overview of Financial Results in the Fiscal Year Ended December 31, 2017

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, C2C and IoT markets. Following the enactment of the Payment Services Act, as amended, the potential of cryptocurrencies which are a distributed system, as opposed to legal currencies which are a centralized system, has become widely recognized. 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 in promoting C2C handmade market, minne with the objective of propelling the service to a strong No. 1 market position while the existing services mainly the settlement service are expanding. (2) The Internet Finance segment worked on improvement of profitability in our mainstay FX transactions in the domestic OTC market and enhancement of service convenience. (3) Online Advertising & Media segment focused on function enhancement and sales of in-house products with the objective of accelerating its shift toward a technology driven business. (4) The Mobile Entertainment segment continued cost control efforts while maintaining the objective of developing new titles. (5) In December, the Group launched a new cryptocurrency mining business.

Fiscal year 2017 net sales increased 14.2% year-on-year to ¥154,256 million. Over the same period operating profit increased 3.7% to ¥17,642 million, and ordinary profit increased 3.8% to ¥17,315 million, and net profit attributable to owners of the parent increased 11.0% to ¥8,030 million.

(Unit: ¥millions)	Previous Fiscal Year	Current Fiscal Year	Change	% Change
Net Sales	135,026	154,256	19,229	14.2%
Operating Profit	17,017	17,642	625	3.7%
Ordinary Profit	16,686	17,315	628	3.8%
Profit attributable to Owners of the Parent	7,234	8,030	795	11.0%

Net Sales and Operating Profit by Segment in the Fiscal Year 2017

(Unit: ¥millions)

	Previous Fiscal Year	Current Fiscal Year	Change	% Change
Internet Infrastructure				
Net Sales	65,414	84,723	19,308	29.5%
Operating Profit	6,598	8,493	1,894	28.7%
Online Advertising & Media				
Net Sales	44,185	44,079	-105	-0.2%
Operating Profit	1,293	975	-317	-24.5%
Internet Finance				
Net Sales	27,350	27,121	-229	-0.8%
Operating Profit	9,611	8,175	-1,436	-14.9%
Mobile Entertainment				
Net Sales	2,138	894	-1,244	-58.2%
Operating Profit	-497	-434	62	-
Incubation				
Net Sales	448	1,316	868	193.4%
Operating Profit	-29	668	698	-
Other				
Net Sales	195	1,088	893	457.4%
Operating Profit	-106	-306	-199	-
Adjustment				
Net Sales	-4,706	-4,967	-260	-
Operating Profit	147	69	-77	-
Total				
Net Sales	135,026	154,256	19,229	14.2%
Operating Profit	17,017	17,642	625	3.7%

Segment results for the current consolidated fiscal year are as follows. Effective January 1, 2017, the segment name of "Internet Securities" was changed to "Internet Finance." This has limited impact on the segment's profit and loss.

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.

Domain registration and renewals remained the same level as the previous year at 5.12 million, and total domains under management rose 1.7% year-on-year to 6.11 million. Net sales grew 4.5% year-on-year to ¥8,196 million.

ii. Hosting & Cloud

The hosting & cloud business responded to growing 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 2.5% year-on-year to 801,000 and net sales increased 1.4% year-on-year to ¥14,072 million.

iii. Ecommerce solutions

Ecommerce solutions comprises SaaS based services for online stores, and C2C handmade market, minne, and O2O support service. In the tailwind of expansion of the market, the segment has provided sales expansion support to EC business operators including the improvement of cart system features and ongoing industry seminars, events and other initiatives. For 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, the number of stores had decreased 0.1% year-on-year to 75,000 and total transaction volume rose 4.1% to ¥272.1 billion, transaction volume of minne rose 22.6% to ¥10.2 billion. Ecommerce solutions reported net sales of ¥8,872 million (8.5% 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 ¥5,299 million (8.1% year-on-year increase). Approximately 70% 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 and the number of transactions, with the expansion of money service business such as early payments service, transaction lending, and payment after delivery with the objective of supporting customers (merchants) in expanding sales.

The numbers of affiliated stores and transactions also increased steadily. Sales significantly increased 83.1% to ¥24,389 million due to a sharp increase in volume of payment after delivery with large customers and the impact of including MACRO KIOSK Inc. as a consolidated subsidiary, in addition to the continued expansion of existing settlement services.

vi. Provider

This sub-segment operates Internet Provider Services for consumers. The number of mobile Wi-Fi users at the end of the current fiscal year increased 52.8% year-on-year to 600 thousand and net sales grew 36.5% to ¥18,397 million as a result of recent cost effective and efficient marketing and an expanding mobile Internet market.

With expanded market share in all of the key Internet Infrastructure businesses, overall net sales increased 29.5% year-on-year to ¥84,723 million. Despite the investment in promotion of C2C handmade market, minne, of approximately ¥1,180 million, strong growth of profitable products including payment and security boosted operating profit to ¥8,493 million, up 28.7% year-on-year.

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. For the current fiscal year, sales declined temporarily due to business restructuring, but in-house products such as AkaNe for advertisement for smartphones and TAXEL for recommendation widgets as well as operational advertising showed a favorable growth, thanks to the technology shift that the Group has been promoting. Net sales in online advertising increased 5.7% year-on-year to ¥28,280 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 subsegment decreased 12.6% to ¥12,634 million due mainly to a decrease in banner advertisement as a consequence of the change in regulations for ad network advertisement and a decline in sales of the existing products.

Overall, in the Online Advertising & Media segment, net sales totaled ¥44,079 million (0.2% year-on-year decrease). Operating profit dropped 24.5% year-on-year to ¥975 million due to elimination entry of sales (¥232 million) in GMO Nikko, our consolidated subsidiary. We will continue to focus on development and sales of in-house products that meet market needs.

3) Internet Finance

The Internet Finance segment operates online financial services for retail investors. In the current fiscal year, the segment has worked to increase customer base and transaction volume. At the end of the current fiscal year, the number of FX accounts grew 8.7% year-on-year to 692,000, and the number of Securities accounts grew 8.9% year-on-year to 330,000. For the FX transactions in the OTC market, which account for the majority of sales and profit of the segment, profitability improved due to the use of big data while the transaction volume fell below the previous year's level partly due to the impact of foreign exchange rates. In the cryptocurrency sector where the transaction volume has been increasing rapidly, GMO Coin is registered with Financial Services Agency as a cryptocurrency exchange operator as stipulated in the Payment Service Act, as amended.

Net sales in the Internet Finance segment totaled ¥27,121 million (0.8% year-on-year decrease) and operating profit was ¥8,175 million (14.9% year-on-year decrease).

4) Mobile Entertainment

This segment comprises smartphone and online game development and operations. In the current fiscal year, existing titles, having been on the market for some time, continued to experience a decline in sales. Meanwhile, we have been working on developing new titles, but there were no hit titles.

In the Mobile Entertainment segment, net sales fell 58.2% to ¥894 million, and operating loss was ¥434 million (¥497 million of operating loss in the previous corresponding term). Through an organization restructuring (please refer to "Notice of Absorption (Simple-Form) Merger of Consolidated Subsidiary" released on October 23, 2017), we will continue to aim at producing hit titles by promoting all functions in-house and accumulating operation know-how while ensuring thorough cost control,

5) Incubation

The Incubation segment invests in expanding business and building enterprise value in Internet-related companies. In the current fiscal year, net sales were ¥1,316 million (193.4% year-on-year increase) and operating profit was ¥668 million (¥29 million of operating loss in the previous corresponding term), a significant increase due to gains on sale of listed and unlisted shares.

(Reference 1) Changes in Operating Results and Financial Condition by Quarter

(Unit: ¥millions)

	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Net Sales	35,142	36,040	38,299	38,068	41,847
Operating Profit	4,035	3,537	3,960	4,492	5,652
Ordinary Profit	4,104	3,372	4,006	4,389	5,547
Profit attributable to Owners of the Parent	1,284	1,151	800	1,832	4,245
Total Assets	588,819	616,073	605,014	660,835	719,286
Shareholders' Equity	39,527	39,896	40,218	40,083	43,697

(Reference 2) Quarterly Results by Segment

(Unit: ¥millions)

I Net Sales by Segment

	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Internet Infrastructure					
Provider (ISP)	3,653	3,968	4,455	4,766	5,205
Domain	1,910	1,995	2,046	2,015	2,138
Hosting & cloud	3,554	3,532	3,533	3,494	3,511
Ecommerce solutions	2,299	2,146	2,109	2,167	2,448
Security	1,255	1,281	1,291	1,282	1,443
Payment	4,243	5,534	5,590	5,951	7,313
Other	759	1,268	1,424	1,401	1,401
Total	17,677	19,727	20,452	21,080	23,462
Online Advertising & Media					
Online advertising	6,983	7,373	7,160	6,818	6,928
Internet media	3,400	3,379	3,056	3,160	3,037
Other	798	819	785	736	822
Total	11,182	11,572	11,001	10,715	10,789
Internet Finance					
Total	6,771	5,578	6,869	6,847	7,824
Mobile Entertainment					
Total	403	299	232	204	157
Incubation					
Total	205	70	253	337	654
Sub total	36,240	37,249	38,810	39,185	42,889
Other	59	52	919	52	64
Adjustment	-1,158	-1,260	-1,430	-1,169	-1,106
Net Sales	35,142	36,040	38,299	38,068	41,847

II Operating Profit by Segment

	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Internet Infrastructure	1,650	2,151	1,800	2,023	2,518
Online Advertising & Media	208	255	195	286	238
Internet Finance	2,238	1,221	2,275	2,102	2,575
Mobile Entertainment	-125	-81	-121	-110	-121
Incubation	52	-5	102	188	383
Sub total	4,024	3,541	4,252	4,490	5,593
Other	-37	-24	-309	-14	42
Adjustment	48	20	16	16	15
Operating Profit	4,035	3,537	3,960	4,492	5,652

(Reference 3) Description of businesses in each segment

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

(2) Overview of Financial Condition

Assets, Liabilities and Shareholders' Equity

Assets

At the end of fiscal year 2017 (December 31, 2017), assets increased ¥130,467 million (22.2%) from the end of the previous fiscal year to ¥719,286 million. Major factors included fluctuations in customer assets in the Securities segment resulting in an increase of ¥67,685 million (16.6%) in various assets (deposits, margin transaction assets, short-term guarantee deposits, and variation margin paid) and an increase of ¥28,724 million (31.8%) in cash and deposits.

Liabilities

At the end of the fiscal year, liabilities increased ¥122,292 million (23.4%) from the end of the previous fiscal year to ¥644,932 million. Major factors included fluctuations in customer assets in the Securities segment resulting in an increase of ¥63,683 million (17.6%) in various liabilities (deposits received, margin transaction liability, guarantees received, variation margin received, and loans payable secured by securities), an increase of ¥41,143 million (57.5%) in interest-bearing liabilities and an increase of ¥10,054 million (26.9%) in deposits received.

Net Assets

At the end of the fiscal year, net assets increased ¥8,174 million (12.4%) from the end of the previous fiscal year to ¥74,354 million. Major factors included an increase of ¥4,784 million (14.4%) in earnings surplus (consisting mainly of an increase from recording profit attributable to owners of the parent totaling ¥8,030 million and a decrease from dividend payments of ¥2,661 million), and an increase of ¥4,011 million (15.1%) in non-controlling minority equity.

Cash Flow

At the end of fiscal year 2017 (December 31, 2017), cash and equivalents increased ¥27,692 million (30.7%) from the end of the previous fiscal year to ¥117,817 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 ¥5,481 million (¥3,118 million of inflow in the previous corresponding term). Major inflow included net profit before adjustment for tax etc. (¥16,124 million), depreciation expense (¥5,091 million), goodwill amortization (¥790 million), and an increase in deposits received (¥10,052 million). Major outflow included a decrease in trade payables (¥9,320 million), and corporate tax payments (¥6,271 million).

Cash Flow from Investing Activities

Outflow from investing activities totaled ¥13,212 million (¥11,204 million of outflow in the previous corresponding term). Major outflow included acquisition of intangible fixed assets (¥8,234 million) and acquisition of property, plant and equipment (¥2,770 million).

Cash Flow from Financing Activities

Inflow from financing activities totaled ¥35,074 million (¥23,749 million of inflow in the previous corresponding term). Major outflow included dividend payments (¥2,665 million), dividend payments to non-controlling interests (¥1,649 million), and acquisition of treasury shares (¥1,182 million). Major inflow included a net increase in interest-bearing liabilities (increases in short- and long-term debt) (¥41,134 million).

(Reference) Cash Flow Indicators

	FYE12/2013	FYE12/2014	FYE12/2015	FYE12/2016	FYE12/2017
Shareholders' Equity Ratio (%)	5.8	6.1	7.1	6.7	6.1
Shareholders' Equity Ratio (Market Value) (%)	37.8	25.0	34.0	29.4	30.7
Ratio of Cash Flow to Interest Bearing Liabilities	1.9	2.1	-	18.6	17.5
Interest Coverage Ratio	42.8	49.7	-	6.9	11.5

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) Future outlook

For the fiscal year ending December 31, 2018, the Group plans to increase both net sales and profits, mainly in Internet infrastructure segment. Meanwhile, there are certain factors that cannot be reasonably predicted at this point, including:

(1) Fluctuation of Bitcoin price and competitors' movement in the cryptocurrency business, (2) Potential impact of economic situations and market conditions in Internet finance segment, and (3) When and how much capital gains will be realized in Incubation segment. Accordingly, we will not disclose the consolidated results forecast for the fiscal year ending December 31, 2018.

(4) Policy regarding appropriation of earned surplus 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. We have also adopted a quarterly dividend system to enable prompt profit return to shareholders

The company will pay annual dividend of ¥23 per share for the current fiscal year (33.1% payout ratio).

As it is difficult to forecast business results as explained above, we will also not disclose dividend forecast for the next fiscal year, but we intend to pay dividends in accordance with the above policy.

(5) 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 with investments 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 Finance 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. In addition, we launched a new "Cryptocurrency mining business" in the current fiscal year. 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 new businesses, 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 joint venture, 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 and ordinances, and required to comply with administrative rulings and guidance, 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 constraint as a result of introduction of new laws applicable to Internet users and related businesses, revisions of or expanded scope of the 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 or guidance 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 sex-related special 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, and if they become aware that indecent video images have been posted on their server by video transmission-type sex-related special business operators, they are required to take preventive measures for transmission of such video images. The company may also be subjected to this law. 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, viewer, 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, limit on compensation for damages, and an opt-in structure for online advertising.

In view of issues arising regarding transaction of Internet mail-orders sales (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 and related regulations were put into effect 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 Act 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 amendment of the Act was promulgated on June 23, 2017 and became effective on February 1, 2018, which requires mobile phone internet service providers to set up a filtering software, etc. in mobile terminals when the contracting party in a new mobile phone contract is under the age of 18.

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) Payment Service Act

The Payment Service 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 prepaid payment instruments or transfer funds are required to file the necessary notifications, pay a guarantee among other measures specified by the Act. The Group is subject to the Act as it issues its private prepaid payment instrument in certain services in order to enhance the convenience of customers' service fee payment.

In addition, as the amendment of the Act was promulgated on June 3, 2016 and became effective on April 1, 2017, cryptocurrency exchange business and central counter-party clearing service also became subject to the Act. One of our group companies is registered as a cryptocurrency exchange operator and subject to supervision of the relevant authorities according to the Act.

(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 campaign 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, if a product or service purchased by a customer is faulty, advertising contains false claims, or 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, compensation or damages may be sought or penalties may be levied against the Group by an administrative body under the Act, and as a result, the Group's 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 caused by reasons that cannot be dealt with by reasonably conceivable technical preventive measures, 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 or email advertising 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 operates various businesses in Japan and abroad in accordance with local laws, regulations and customs. For reasons such as regulations on export/import and products, establishment or amendment of tax systems including customs duty, establishment or amendment of other unexpected laws or government policy, filing of class action lawsuit, order for large compensation for damage, recommendation or execution of procedures based on relevant laws and regulations, or administrative decree or guidance issued to the group, the Group's business may become subject to control or officers or employees of the Group may be arrested by local authority, which may have negative impact on the Group's financial position or business results.

Also, the public order in the relevant region may deteriorate due to a political change, war, acts of terrorism, coup, conflict, riot, unprovoked attack or occupation by a foreign military, or other social or political chaos, which may make it impossible to continue operations. Further, confiscation of the Group's local facility by a government, an attack on or illegal occupation of the Group's local facility by an armed group, kidnapping or murder of officers or employees of the Group may also have material impact on the Group's business and financial results.

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 from 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 competitors, 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, for example, as a result of emergence of freemium model, 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 failure 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 competitive 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. Further, if the Group heavily depends on a particular advertising network, it may be significantly affected by a decline in unit price or changes in contract terms, and therefore the overall results of the company may deteriorate.

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 algorithms 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 differentiate our service by expanding our research panel and establishing strategic partnerships with other research panels, however if competition in the market intensifies, and our own services lose competitive edge, operating results may be impacted.

(3) Risks associated with the Internet Finance 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. Also, GMO Coin, Inc. is a licensed cryptocurrency exchange operator having received approval of Prime Minister of Japan under Article 63 (2) of the Payment Services Act and is subject to the aforementioned act, other laws and Financial Services Agency regulation. There is a risk that introduction of new laws or revision of existing laws could impact the ability of these companies to expand their businesses as planned. In addition, the policy direction and regulations of the Financial Services Agency have significant impact on these companies' business activities and could potentially impact their 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. GMO Coin is a member of Japan Payment Service Association, a self-censorship organization, and complies with the association's regulations.

These companies operate under the aforementioned laws and other regulations, and in the event of any violations resulting in damages claims, disposition or other measures, these companies' and 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 could impact the ability of these companies to expand their businesses as planned and may have material impact on the business activities or performance of these companies and the Group.

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, 2017 GMO CLICK Securities' capital adequacy ratio was at 326.7%, and FX PRIME by GMO at 450.7%. 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, and GMO Coin, Inc. provides cash and margin trading with cryptocurrency, and therefore these companies' profits are impacted by the securities market, the foreign exchange market, the cryptocurrency 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, foreign exchange markets or cryptocurrency 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

As OTC foreign exchange trading and OTC CFD trading offered by GMO CLICK Securities, OTC foreign exchange trading offered by FX PRIME by GMO and cryptocurrency trading offered by GMO Coin are negotiated transactions with customers, these companies take a proprietary position of foreign exchange or cryptocurrency to cover the opposite position. These companies mitigate risks associated with subsequent market fluctuations with offsetting transactions with other customers or cover transactions with counterparties.

However in the event of system malfunction, if the proprietary position is not appropriately resolved, or if no counterparty transaction takes place due to drastic fluctuations in the market or a counterparty's systems malfunction, a loss may be incurred due to the company's position and this may impact operating results and financial position of these companies and the Group.

v. Credit Risk

GMO CLICK Securities, FX Prime by GMO and GMO Coin retain a deposit (in cash or securities) from customers conducting margin trading of securities, stock index futures or stock index future options or cryptocurrency 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, these companies request 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.

In cover transactions with counterparties, these companies pledge certain percentage of the transaction value as deposit or margin (in cash or securities). If a counterparty to whom deposit or margin is pledged experiences deterioration of its financial condition or files for bankruptcy, these companies will demand such counterparty to settle open positions, return deposit or margin and pay the unpaid balance. However, if such counterparty does not respond to the demand for payment, these companies may write off all or part of the amount as a bad debt loss and this could impact operating results and financial position of these companies and the Group.

vi. Computer Systems

The majority of transactions offered by GMO CLICK Securities, FX PRIME by GMO and GMO Coin occur over the respective companies' systems and for this reason we recognize that stable systems operation is vital to our business. These companies 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, loss of customers due to negative publicity, or compensation claims from customers who suffer losses, which may impact operating results of these companies and the Group. Depending on the extent of the system malfunction, it could also impede business continuity

of these companies and the Group.

vii. Information Security Risk

The Group companies belonging to Internet Finance segment acquire and hold information of customers and clients during the course of their business activities. These companies put into place an internal information management system to educate employees and take information security measures for both hardware and software of the system to mitigate information management risk. However, if a cyber attack, unauthorized access, infection of computer virus or other unforeseen circumstances results in leak, loss, destruction or falsification of personal or vital information or system halt, it may lead to erosion of customer trust to these companies, administrative sanction or claim for damage and therefore have material impact on business activities and financial results of these companies and the Group.

(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 including AppStore and Google Play. Commission is paid to Apple and Google for revenue earned via these platforms. Any increase in these commissions could impact earnings.

(5) Cryptocurrency

i. Laws and Regulations

The Group launched a cryptocurrency mining business. Legislation concerning this business has not yet been completely established. If any changes in laws and regulations or policies limit holding or transaction of cryptocurrency, it could impact the Group's financial results and business development.

ii. Market Trends

In the cryptocurrency mining business, the Group has been promoting research and development with outside partners to achieve a highly sophisticated and power-saving mining computer, "Next Generation Mining Board." If the computer does not deliver superior performance as expected, the Group cannot establish competitive advantage over competitors, which could impact the Group's financial results and business development. In addition, the Group obtains cryptocurrencies including Bitcoin as compensation for mining services in the cryptocurrency mining business, and because cryptocurrencies entail high price fluctuation risk, it may have material effect on the Group's business results.

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 2017, consolidated interest-bearing liabilities (total short-term, long-term debt and bonds) stood at ¥112,656 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. 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. 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 103 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, C2C handmade market operation, online shopping mall operation, and management support	GMO Internet, Inc. GMO Pepabo Inc. GMO MAKESHOP, Inc. GMO Commerce, Inc. GMO SystemConsulting, Inc.
	Security	SSL certificate issue	GMO GlobalSign K.K. GMO GlobalSign Ltd. GMO GlobalSign NV
	Payment	Comprehensive payment and financial services	GMO Payment Gateway, Inc. GMO Epsilon, Inc. GMO Payment Service, Inc. GMO Financial Gate, 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	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 Finance	Internet finance	Operation of online securities trading, FX trading services, and cryptocurrency exchange service	GMO Financial Holdings, Inc. GMO CLICK Securities, Inc. FX Prime by GMO Corporation GMO Coin, Inc. GMO-Z.com Forex HK Limited GMO-Z.com Forex UK Limited
Mobile Entertainment	Mobile entertainment	Smartphone and online game development and operation	GMO Internet, 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 Finance, and Mobile Entertainment business segments operate under the corporate slogan Internet for Everyone. In the current fiscal year, the Group launched a new cryptocurrency business. In each of these 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 103 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 promote further growth of ".shop" launched in the previous fiscal year.

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 Internet Finance segments. Further, as a group offering one-stop service including mining, exchange and payment, the Group aims at becoming the No. 1 company in the world in the cryptocurrency service.

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. The Group continues its efforts to develop services meeting customer needs and enhance the operation and service structure to increase customer satisfaction.

(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 will continue 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 Finance

In the Internet Finance 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 while minimizing cost.

(v) Cryptocurrency

We believe the cryptocurrency market has business opportunities mainly in three fields: mining, exchange and payment. As payment service involves uncertainties over commercialization due to sharp rise in fees, we will first aim at becoming No. 1 company in mining (cryptocurrency mining service) and exchange service (cryptocurrency exchange service offered by GMO Coin).

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, 2016)	Current Fiscal Year (As of Dec 31, 2017)
Assets		
Current Assets		
Cash and deposits	90,282	119,006
Trade notes and accounts receivable	15,947	17,597
Operational investment securities	3,551	3,910
Securities segment deposits	256,481	286,848
Securities segment margin transaction assets	84,439	113,833
Securities segment short term guarantee deposits	41,264	46,996
Securities segment variation margin paid	24,502	26,696
Deferred tax asset	1,564	3,114
Other	37,034	62,354
Provision for doubtful debts	-1,164	-3,119
Total Current Assets	553,903	677,238
Fixed Assets		
Tangible fixed assets		
Buildings and structures (net amount)	1,447	1,374
Tools and equipment (net amount)	2,322	3,291
Lease assets (net amount)	3,275	2,849
Other (net amount)	585	1,141
Total tangible fixed assets	7,630	8,656
Intangible fixed assets		
Goodwill	3,857	2,310
Software	4,327	5,140
Other	7,438	12,956
Total intangible fixed assets	15,623	20,407
Investments and other assets		
Investment securities	7,832	7,701
Deferred tax asset	1,175	2,402
Other	2,995	3,245
Provision for doubtful debts	-341	-366
Total investments and other assets	11,661	12,983
Total Fixed Assets	34,915	42,047
Total Assets	588,819	719,286

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2016)	Current Fiscal Year (As of Dec 31, 2017)
Liabilities		
Current liabilities		
Trade notes and accounts payable	7,822	8,672
Short term debt	60,204	88,812
Current portion of long term debt	2,560	2,098
Amount payable	21,251	25,980
Securities segment deposits received	39,859	54,729
Securities segment margin transaction liability	47,583	48,639
Securities segment guarantees received	267,796	294,916
Securities segment variation margin received	4,105	4,095
Securities segment loans payable secured by securities	2,134	22,782
Accrued corporate tax etc.	1,666	2,107
Provision for bonuses	931	1,034
Provision for bonuses to directors	74	44
Advance payment received	6,315	7,191
Deposits received	37,407	47,462
Other	7,115	7,900
Total Current Liabilities	506,828	616,469
Fixed Liabilities		
Long term debt	8,748	21,745
Deferred tax liability	102	367
Other	4,797	4,445
Total Fixed Liabilities	13,647	26,559
Statutory Reserve		
Financial instruments transaction liability reserve	2,162	1,903
Total Statutory Reserve	2,162	1,903
Total Liabilities	522,639	644,932
Net Assets		
Shareholders' Equity		
Capital stock	5,000	5,000
Capital reserve	544	-
Earned surplus	33,328	38,113
Treasury stock	-2	-23
Total Shareholders' Equity	38,870	43,089
Other Comprehensive Income		
Other securities valuation differences	299	284
Hedging profit/loss carried forward	65	-
Currency translation account	291	323
Total Other Comprehensive Income	656	608
Equity Warrants	80	73
Non-controlling Minority Equity	26,571	30,582
Total Net Assets	66,179	74,354
Liabilities, Net Assets Total	588,819	719,286

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

Consolidated Profit & Loss Statement

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2016-12.31.2016)	Current Fiscal Year (01.01.2017-12.31.2017)
Net Sales	135,026	154,256
Cost of Sales	66,778	78,336
Gross Profit on Sales	68,248	75,920
Sales, General & Administrative Expenses	51,231	58,277
Operating Profit	17,017	17,642
Non Operating Revenue		
Interest received	38	56
Dividends received	69	98
Currency translation gain	-	28
Gain on investments in partnership	20	18
Expired points gain	29	36
Grants	60	27
Other	148	164
Total Non Operating Revenue	366	429
Non Operating Expenses		
Interest paid	121	165
Commission paid	152	42
Currency translation loss	151	-
Equity method investment loss	126	411
Other	144	137
Total Non Operating Expenses	696	756
Ordinary Profit	16,686	17,315
Extraordinary Profit		
Gain on sale of stock in subsidiaries and affiliates	105	78
Insurance income	-	266
Gain on step acquisitions	425	-
Reversal of reserve for securities transaction liability	219	258
Other	220	64
Total Extraordinary Profit	971	667
Extraordinary Loss		
Loss on valuation of investment securities	140	56
Impairment loss	502	932
Information security measures expense	-	273
Special investigation expense	-	172
Loss on change in equity	-	186
Other	188	237
Total Extraordinary Loss	831	1,859
Net Profit before Adjustment for Tax etc.	16,826	16,124
Corporate, Municipal and Enterprise Taxes	6,112	6,921
Corporate Tax etc. Adjustment	339	-2,873
Total Corporate Taxes etc.	6,451	4,047
Net Profit	10,374	12,076
Profit attributable to non-controlling Interests	3,139	4,045
Profit attributable to Owners of the Parent	7,234	8,030

Other Comprehensive Income

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2016-12.31.2016)	Current Fiscal Year (01.01.2017-12.31.2017)
Net Profit	10,374	12,076
Other Comprehensive Income		
Other securities valuation differences	421	48
Hedging profit/loss carried forward	51	-65
Currency translation adjustment account	-303	142
Share of other comprehensive (loss) income of associates accounted for using equity method	-40	210
Total other comprehensive income	128	336
Comprehensive Income	10,503	12,413
(Breakdown)		
Comprehensive income attributable to Owners of the Parent	7,274	7,981
Comprehensive income attributable to Non-controlling Interests	3,228	4,431

(3) Consolidated Statement of Changes in Shareholders' Equity, etc.
 Previous 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 transactions with non-controlling interests		-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	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 transactions with non-controlling interests							-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

Current Accounting Term (01.01.2017 – 12.31.2017)

(Unit: ¥millions)

	Shareholders' Equity				
	Capital	Capital Reserve	Earned Surplus	Treasury Stock	Total Shareholders' Equity
Beginning balance	5,000	544	33,328	-2	38,870
Changes during term					
Dividends			-2,661		-2,661
Profit attributable to Owners of the Parent			8,030		8,030
Acquisition of treasury stock				-1,182	-1,182
Retirement of treasury stock		-1,161		1,161	—
Decrease in earned surplus due to increase of consolidated subsidiaries			-0		-0
Changes in shareholders' interests due to transactions with non-controlling interests		33			33
Transfer of negative balance of other capital surplus		584	-584		—
Changes in items other than shareholders' equity in the current term (net amount)					—
Total changes during term	—	-544	4,784	-21	4,219
Balance at end of current term	5,000	—	38,113	-23	43,089

(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	299	65	291	656	80	26,571	66,179
Changes during term							
Dividends							-2,661
Profit attributable to Owners of the Parent							8,030
Acquisition of treasury stock							-1,182
Retirement of treasury stock							—
Decrease in earned surplus due to increase of consolidated subsidiaries							-0
Changes in shareholders' interests due to transaction with non-controlling interests							33
Transfer of negative balance of other capital surplus							—
Changes in items other than shareholders' equity in	-15	-65	31	-48	-7	4,011	3,955

the current term (net amount)							
Total changes during term	-15	-65	31	-48	-7	4,011	8,174
Balance at end of current term	284	—	323	608	73	30,582	74,354

(4) Consolidated Statement of Cash Flows

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2016-12.31.2016)	Current Fiscal Year (01.01.2017-12.31.2017)
Cash Flow from Operating Activities		
Net Profit before tax etc.	16,826	16,124
Depreciation expenses	4,528	5,091
Impairment loss	502	932
Amortization of goodwill	730	790
Gain or loss on change in equity (- represents gain)	-	186
Interest and dividends received	-107	-154
Interest paid	121	165
Equity method investment gain or loss (- represents gain)	126	411
Gain or loss on sale of investment securities (- represents gain)	-209	-39
Gain or loss on sale of stock in affiliates (- represents gain)	-105	-78
Insurance Income	-	-266
Special investigation expense	-	172
Information security measures expense	-	273
Change in provision for doubtful debts (- represents decrease)	280	1,978
Change in financial instruments transaction liability reserve (- represents decrease)	-219	-258
Change in provision for bonuses (- represents decrease)	-516	71
Change in accounts receivable (-represents increase)	-1,343	-630
Change in purchase debts (- represents decrease)	-5,243	-9,320
Change in amount payable (- represents decrease)	8,921	4,714
Change in deposits received (- represents decrease)	6,716	10,052
Change in deposits in securities segment (- represents increase)	-1,586	-30,366
Change in short term guarantee deposits in securities segment (- represents increase)	4,282	-5,731
Change in margin variation paid and received in securities segment	-89	-2,203
Changes in deposits and guarantees received in securities segment (- represents decrease)	2,574	41,989
Changes in margin trading assets and liabilities in securities segment	-10,215	-28,338
Changes in loans payable secured by securities in securities segment (-represents decrease)	2,134	20,648
Other	-14,138	-13,931
Sub total	13,970	12,282
Interest and dividends received	113	209
Interest paid	-449	-478
Insurance income received	-	185
Special investigation expense paid	-	-172
Information security measures expense paid	-	-273
Corporate tax etc. paid	-10,516	-6,271
Cash Flow from Operating Activities	3,118	5,481
Cash Flow from Investing Activities		
Payment of fixed term deposit	-0	-5,109
Income from return of fixed term deposit	900	4,197
Expenditure on acquisition of tangible fixed assets	-1,541	-2,770
Expenditure on acquisition of intangible fixed assets	-7,371	-8,234
Expenditure on acquisition of investment securities	-4,047	-474
Income accrued on sale of investment securities	253	73

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2016-12.31.2016)	Current Fiscal Year (01.01.2017-12.31.2017)
Expenditure on the acquisition of subsidiary stock resulting in change in scope of consolidation	-1,412	-31
Income accrued on the acquisition of subsidiary stock resulting in change in scope of consolidation	1,074	20
Income accrued on the sale of subsidiary stock resulting in change in scope of consolidation	804	69
Other	134	-953
Cash Flow from Investing Activities	-11,204	-13,212
Cash Flow from Financing Activities		
Net increase or decrease in short term loans (- represents decrease)	26,300	28,313
Income accrued on long term loans	8,600	16,135
Expenditure on repayment of long term loans	-685	-3,313
Redemption of bonds	-2,600	-
Gain on sale and leasebacks	1,850	-
Repayment of finance lease and installment obligations	-1,869	-1,789
Income from investment partnership	880	1,135
Expenditure on repayment to investment Partner	-283	-202
Income from disposal of treasury stock in subsidiary	10	19
Purchase of treasury stock in subsidiary	-223	-
Revenue accrued from non-controlling minority equity	528	293
Acquisition of treasury stock	-2,236	-1,182
Payment of dividends	-4,106	-2,665
Payment of dividends to non-controlling minority shareholders	-1,260	-1,649
Expenditure on acquisition of subsidiary stock without change in scope of consolidation	-1,153	-17
Cash Flow from Financing Activities	23,749	35,074
Currency Translation Adjustment on Cash and Equivalents	-466	346
Change in Cash and Equivalents (- represents decrease)	15,196	27,690
Balance of Cash and Equivalents at Beginning of Term	74,929	90,125
Increase in Cash and Equivalents following Increase in Consolidation	-	1
Balance of Cash and Equivalents at End of Term	90,125	117,817

(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: 103 (including 5 partnerships)

Names of significant consolidated subsidiaries

GMO AD Partners, Inc.

GMO CLOUD, KK.

GMO Payment Gateway, Inc.

GMO Pepabo, Inc.

GMO Financial 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 JC Square Japan, Inc. and two other companies were newly acquired, additional shares of GMO Dream Wave, Inc. and two other companies were acquired, and GMO Live Games, Inc. and four other companies were newly established.

The following companies were excluded from the consolidation during the current fiscal year for the following reasons: shares of GMO Fast Translation, Inc. and four other companies were sold. GMO GameCenter, Inc. and five other companies were absorbed to other group companies, and Brights Holdings Pte. Ltd. and two other companies were disbanded.

GMO Financial Holdings, Inc. changed its name from GMO CLICK Holdings, Inc. as of October 1, 2017.

(2) Names of significant non- consolidated subsidiaries

Patent Incubation Capital, Inc.

Reasons for exclusion from the consolidation

All 18 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 18 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 Globalsign Certificate Services Private Limited and 1 other company

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.

In the current fiscal year, GMO Financial Holdings, Inc. changed its closing date of the fiscal year to December 31 from March 31.

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

Revisions in Method of Presentation

Consolidated Balance Sheet

Securities segment loans payable secured by securities included in Other in Current Liabilities in the previous fiscal year is reported as a separate line item from the current fiscal year as it became material. The consolidated financial statements of the previous fiscal year were reclassified to reflect this change in presentation.

As a result, Securities segment loans payable secured by securities included in Other in Current Liabilities in the previous fiscal year is reclassified to Securities segment loans payable secured by securities (¥2,134 million).

Consolidated Profit and Loss Statement

Gain on investments in partnership included in Other in Non-Operating Revenue in the previous fiscal year is reported as a separate line item from the current fiscal year as it became material. The consolidated financial statements of the previous fiscal year were reclassified to reflect this change in presentation.

As a result, Gain on investments in partnership included in Other in Non-Operating Revenue in the previous fiscal year is reclassified to Gain on investments in partnership (¥20 million).

Gain on sale of investment securities was reported as a separate line item in Extraordinary profit in the previous fiscal year, but it is included in Other from the 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, ¥209 million of Gain on sale of investment securities reported in Extraordinary profit in the previous fiscal year's consolidated statement of income is reclassified to Other.

Consolidated Statement of Cash Flows

Equity method investment gain or loss (- represents gain) and Changes in loans payable secured by securities in securities segment (- represents decrease) included in Other in Cash Flow from Operating Activities in the previous fiscal year are reported as a separate line item from the current fiscal year as they became material. The consolidated financial statements of the previous fiscal year were reclassified to reflect these changes in presentation.

As a result, ¥-11,876 million reported in Other in Cash Flow from Operating Activities in the previous fiscal year's consolidated statement of cash flows is reclassified to Equity method investment gain or loss (- represents gain) of ¥126 million, Changes in loans payable secured by securities in securities segment (- represents decrease) of ¥2,134 million and Other of ¥-14,138 million.

Income accrued on short term loans and Expenditure on repayment of short term loans were presented on a gross basis in Cash Flow from Financing Activities in the previous fiscal year, but they are presented on a net basis as Net increase or decrease in short term loans (- represents decrease) from the current fiscal year as they are short term and the balance changes quickly. The consolidated financial statements of the previous fiscal year were reclassified to reflect these changes in presentation.

As a result, ¥367,098 million of Income accrued on short term loans and ¥-340,798 million of Expenditure on repayment of short term loans reported in Cash Flow from Financing Activities in the previous fiscal year's consolidated statement of cash flows are reclassified to Net increase or decrease in short term loans (- represents decrease) of ¥26,300 million.

Additional Information

Effective January 1, 2017, the Group adopted “Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016)”.

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 Finance, 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 Finance segment operates online securities service, foreign exchange trading service and cryptocurrency trading service. 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, the name of Internet Securities was changed to Internet Finance. The impact of this change on segment profit or loss is insignificant.

Segment information in the previous year is also presented under the new name.

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 (01.01.2016 – 12.31.2016)

(Unit: ¥millions)

	Segment						Other (*1)	Adjustment (*2)	Total (*3)
	Internet Infrastructure	Online Advertising & Media	Internet Finance	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
Segment 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. Segment profit/loss is adjusted to the operating profit amount presented on the consolidated statement of income.

Current Accounting Term (01.01.2017 – 12.31.2017)

(Unit: ¥millions)

	Segment						Other (*1)	Adjustment (*2)	Total (*3)
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Mobile Entertainment	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	84,063	39,915	27,119	863	1,316	153,278	977	—	154,256
Internal transactions and transfers	659	4,163	2	30	—	4,856	110	-4,967	—
Total	84,723	44,079	27,121	894	1,316	158,134	1,088	-4,967	154,256
Segment profit/loss (-)	8,493	975	8,175	-434	668	17,878	-306	69	17,642
Other items									
Depreciation expenses	3,772	436	766	96	0	5,073	18	—	5,091

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

2. The segment profit adjustment (¥69 million) is an adjustment for internal segment transactions.

3. Segment profit/loss is adjusted to the operating profit amount presented on the consolidated statement of income.

Related Information

Previous 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

(Unit: ¥millions)

Japan	Other	Total
6,681	948	7,630

3. Data classified by major customer

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

Current Accounting Term (01.01.2017 – 12.31.2017)

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

(Unit: ¥millions)

Japan	Other	Total
7,333	1,322	8,656

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 (01.01.2016 – 12.31.2016)

(Unit: ¥millions)

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

Current Accounting Term (01.01.2017 – 12.31.2017)

(Unit: ¥millions)

	Segment						Other	Adjustment	Total
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Mobile Entertainment	Incubation	Total			
Impairment loss	691	48	—	192	—	932	—	—	932

Data regarding goodwill amortization and unamortized balance by reportable segment
 Previous Accounting Term (01.01.2016 – 12.31.2016)

(Unit: ¥millions)

	Segment						Other	Adjustment	Total
	Internet Infrastructure	Online Advertising & Media	Internet Finance	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

(Note) Other relates to culture incubation business.

Current Accounting Term (01.01.2017 – 12.31.2017)

(Unit: ¥millions)

	Segment						Other	Adjustment	Total
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Mobile Entertainment	Incubation	Total			
Amortization in current term	323	406	—	57	—	787	3	—	790
Balance at end of term	1,664	400	—	229	—	2,294	16	—	2,310

(Note) Other relates to culture incubation business.

Data regarding profit arising from negative goodwill by reportable segment
 None.

Per Share Data

Item	Previous Consolidated Fiscal Year (01.01.2016 – 12.31.2016)	Consolidated Fiscal Year (01.01.2017 – 12.31.2017)
Shareholders' Equity Per Share	340.92	379.69
Net Profit per Share	62.26	69.44
Net Profit per Share (diluted)	60.89	68.76

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

Item	Previous Consolidated Fiscal Year (01.01.2016 – 12.31.2016)	Consolidated Fiscal Year (01.01.2017 – 12.31.2017)
Net Profit per Share		
Profit attributable to Owners of the Parent (¥millions)	7,234	8,030
Non-common stock (¥millions)	-	-
Net profit related to common stock (¥millions)	7,234	8,030
Average number of common shares outstanding in the period	116,300,816	115,798,346
Average number of treasury shares in the period	-98,939	-154,208
Average number of shares in the period	116,201,877	115,644,138
Net Profit per share (diluted)		
Net profit adjustment (¥millions)	-158	-78
(including adjustment for convertible securities in consolidated subsidiaries) (¥millions)	(-158)	(-78)
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)	<p>1. Consolidated Subsidiaries</p> <p>i. GMO AD Partners, Inc. Stock Options 4th Round Common shares: 39,600 Stock Options 5th Round Common shares: 92,600</p> <p>ii. GMO Financial Holdings, Inc. Equity Warrants 2nd Round Common shares: 2,660,000</p> <p>iii. GMO TECH, Inc. Equity Warrants 1st Round Common shares: 12,215</p> <p>iv. GMO Pepabo, Inc Equity Warrants 2nd Round Common shares: 73,800 Common shares: 76,800</p>	<p>1. Consolidated Subsidiaries</p> <p>i. GMO AD Partners, Inc. Stock Options 5th Round Common shares: 64,000</p> <p>ii. GMO Financial Holdings, Inc. Equity Warrants 2nd Round Common shares: 2,570,000</p> <p>iii. GMO TECH, Inc. Equity Warrants 1st Round Common shares: 10,580</p> <p>iv. GMO Pepabo, Inc Equity Warrants 2nd Round Common shares: 65,400</p> <p>v. GMO Epsilon, Inc. 2010 Stock Options Common shares: 159</p>

Significant Post Balance Sheet Events

1. Acquisition of Treasury Stock

At a Board of Directors meeting convened on February 9, 2018, 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: 1,000,000 (maximum) (% to shares outstanding excluding treasury stocks: 0.87%)
- (4) Total cost of share acquisition: Up to JPY 1,360 million
- (5) Acquisition period: February 13, 2018 through to December 28, 2018
- (6) Acquisition method: Market purchase