

The following is a summary of questions asked by attendees at the earnings presentation to investors held on November 12, 2018. The questions are answered by Founder & Group CEO Masatoshi Kumagai, CFO Masashi Yasuda.

● Cryptocurrency Mining Business

【Q1】 Regarding the profit and loss of cryptocurrency mining business, please provide the breakdown of the operating expenses of approximately JPY 1.6 billion. Will the cryptocurrency mining business cost more than you are able to fit into a budget of JPY 38 billion?

【A1】 Depreciation cost of mining machines and electricity cost comprise the majority of the operating expenses. Labor cost and other costs are not significant. Depreciation period is 2 years, so the depreciation cost is high. At the same time, we are considering ways to secure a cheaper power supply.

【Q2】 The cryptocurrency mining business posted a profit of JPY -360 million in Q2, which led to the policy change, and JPY -640 million in Q3. Will this trend continue in Q4?

【A2】 This will depend on the global hash rate and the market price of cryptocurrencies. If the external factors remain the same, we will be in a harsh competitive environment. Depreciation cost of mining machines and electricity cost comprise the majority of the operating expenses. We are considering ways to secure a cheaper power supply. We are doing everything we can.

【Q3】 Is it correct that the depreciation period of the mining chip's development cost is 5 years? How is the design of the new chip progressing?

【A3】 We are planning to develop 7+ nm and 5 nm but we have not yet entered the design phase. We have to compare and consider carefully which chip is appropriate for the mining ASIC.

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- 【Q4】 You have mentioned that you need to compare and consider carefully which chip is appropriate for the mining ASIC. Are you saying that if you use the conventional chips, you will not be able to beat the competitors? Regions with cheap power supply mainly use fossil fuels. Does this mean that you cannot beat non-listed companies?
- 【A4】 Our strengths are that we have cryptocurrency, securities, and banking services and blockchain technology. We would like to use these organically to compete as a group offering new financial services. We will continue to secure a clean power supply as a listed company, and a clean power supply is not necessarily expensive.
- 【Q5】 You announced the postponement of the shipment of mining machines. When are you planning to ship them? What will be their price then?
- 【A5】 It is difficult to acquire part of the electronic components, such as resistors, due to the tight global supply-demand balance. It is currently difficult to tell you the exact timeframe. We would like to decide flexibly the price of machines at the time of shipment based on the competitive environment.
- 【Q6】 People have known since 6 months ago that it is difficult to acquire the electronic components, such as resistors, due to the tight global supply-demand balance.
Please explain in more details the reasons for the postponement of the shipment of mining machines.
- 【A6】 There are various types of electronic components. The ones we need for our mining machines are actually very difficult to acquire right now.
- 【Q7】 You have previously explained that if it is difficult to sell mining machines, you will use your mining machines to mine cryptocurrencies on your own. How difficult is it to actually switch your policy?
- 【A7】 If we mine cryptocurrencies on our own, we must secure power supply. We have a system that allows us to switch flexibly between in-house mining and sales of mining machines.

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【Q8】 For the machines, how is the order book? When did you stop accepting orders?

【A8】 We have received orders exceeding the anticipated production amount but we do not disclose the actual figures. We received orders for the machines that we were planning to ship by the end of this year. Some customers decided to wait, whereas others demanded the refund due to the postponement of the shipment.

● Cryptocurrency Exchange Business

【Q8】 GMO Coin's transaction volume in October decreased. Can you generate profit at this level?

【A8】 The transaction volume is decreasing but GMO Coin can operate at operating expenses, including marketing cost, of about JPY 1 billion per quarter, so we believe that it will have limited impact on the consolidated earnings.

● Stablecoin

【Q9】 What are the usage and the benefit of stablecoin GYEN?

【A9】 The biggest benefit is that stablecoin is a price-stable cryptocurrency whose values are backed by fiat currencies, reducing the risk posed by price volatility. One of the stablecoins is Tether whose values are backed by USD. If cryptocurrencies are exchanged to Tether rather than USD, the transfer of cryptocurrencies between cryptocurrency exchanges will be fast and cheap.

● Online Advertising & Media Business

【Q10】 For Online Advertising and Media, please explain in more details the impact of ad fraud issues.

【A10】 Ad fraud issue is an online-advertising-industry-wide issue. Our ad agency business' net sales were affected by the one-off decline in ad placement in Q2 but recovered in Q3. For our in-house ad technology product AkaNe, our ad placement standard was tightened for quality improvement in the mid- to long-term.



● Internet Finance Business

【Q11】 What is the impact of the secondary offering of shares of GMO Financial Holdings on your consolidated business performance?

【A11】 The secondary offering of shares of GMO Financial Holdings will not have an impact on our consolidated business performance. As GMO Internet, a parent company, has sold shares in GMO Financial Holdings, a subsidiary, and retained a controlling share after the sale, the difference between the sale amount and equity sold is treated as capital surplus, and is not reported as a consolidated gain or loss. GMO Internet's ownership of GMO Financial Holdings has decreased following the secondary offering of shares of GMO Financial Holdings, so minority profit/loss will increase.