

Fiscal Year 2018 Consolidated Financial Results (Japanese GAAP)

February 12, 2019

Name of Listed Company: GMO Internet, Inc.

Exchange Listing: Tokyo Stock Exchange Stock Code: 9449 URL: <https://www.gmo.jp/en>

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Date of Annual General Shareholders Meeting: March 21, 2019 Start Date of Dividend Payout: March 7, 2019

Date of Annual Report Release: March 22, 2019

Supplementary documents available pertaining to financial results: Yes

Financial results briefing: Yes (for institutional investors and analysts)

(all amounts rounded down to the nearest million yen)

1. Consolidated Results in the Fiscal Year Ended December 31, 2018 (01.01.2018- 12.31.2018)

(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	%
FYE12/2018	185,177	20.0	21,787	23.5	19,135	10.5	-20,707	—
FYE12/2017	154,256	14.2	17,642	3.7	17,315	3.8	8,030	11.0

(Note) Comprehensive Income: FYE 12/2018 ¥ -12,525 million (- %), FYE12/2017 ¥12,413 million (18.2 %)

	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
	¥	¥	%	%	%
FYE12/2018	-179.92	-181.10	-43.1	2.5	11.8
FYE12/2017	69.44	68.76	19.3	2.6	11.4

(Reference) Earnings/Loss on Equity Method Investment: FYE 12/2018 ¥-829 million, FYE 12/2017 ¥-411 million

(2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio	Shareholders' Equity per Share
	¥ millions	¥ millions	%	¥
FYE12/2018	752,627	96,421	7.0	455.48
FYE12/2017	749,160	74,354	5.8	379.69

(Reference) Shareholders' Equity: FYE 12/2018 ¥52,422 million, FYE 12/2017 ¥43,697 million

(Note) Effective January 1, 2018, the Company applied "Tentative Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act" (Practical Issues Task Force No. 38, March 14, 2018) and also applied it to the consolidated financial statements for the year ended December 31, 2017, retrospectively. See "5. Consolidated Financial Statements and Major Notes (5) Notes to consolidated financial statements (Changes in accounting policies)" on page 25 of the accompanying documents for details.

(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
FYE12/2018	13,127	-29,899	43,960	143,650
FYE12/2017	5,481	-13,212	35,074	117,817

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			
FYE12/2017	¥ 5.00	¥ 6.00	¥ 6.00	¥ 6.00	¥ 23.00	¥ millions 2,656	% 33.1	% 6.4
FYE12/2018	6.00	6.20	5.50	11.80	29.50	3,395	—	7.1
FYE12/2019 (forecast)	—	—	—	—	—		—	

3. Consolidated Results Forecast for the Year Ending December 31, 2019 (01.01.2019 – 12.31.2019)

As the Group's business "Internet Finance business," "Cryptocurrency business" and "Incubation business" are affected by economic conditions, financial markets, cryptocurrency and other market conditions, it is difficult to forecast business performance, and therefore we do not disclose consolidated business results and dividend forecast for the year ending December 31, 2019. GMO Financial Holdings, Inc., our subsidiary, discloses sales indicators, such as foreign exchange margin transaction volume, stock brokerage trading price and the number of customer account, and operating revenue on a monthly basis.

*Notes

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

New: 2 companies (GMO Click Global Markets, Inc., GMO Global Fintech Fund)

Excluded: None

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

1. Changes resulting from revisions to accounting policy: No

2. Changes other than those specified above: Yes

3. Changes in accounting estimates: No

4. Restatements: No

(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 12/2018	115,096,887	FYE 12/2017	115,096,887
FYE 12/2018	4,004	FYE 12/2017	11,347
FYE 12/2018	115,088,108	FYE 12/2017	115,644,138

(Reference) Summary of Non-Consolidated Financial Results

1. Non-consolidated Results in the Fiscal Year Ended December 31, 2018 (01.01.2018 - 12.31.2018)

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

	Net Sales		Operating Profit		Ordinary Profit		Net Profit	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
FYE12/2018	47,761	26.6	499	-52.6	6,338	10.4	12,658	180.2
FYE12/2017	37,732	17.3	1,052	18.7	5,743	13.5	4,518	52.6

	Net Profit per Share	Net Profit per Share (Diluted)
	¥	¥
FYE12/2018	109.98	—
FYE12/2017	39.06	—

(2) Non-consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net assets per Share
	¥ millions	¥ millions	%	¥
FYE12/2018	76,245	27,402	35.9	238.08
FYE12/2017	76,919	17,405	22.6	151.22

(Reference) Shareholders' Equity: FYE 12/2018 ¥27,402 million, FYE 12/2017 ¥17,405 million

*Consolidated financial results are not subject to audit by independent auditors.

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

(Notes on forward-looking statements)

Although the Company aims to pay dividends quarterly with the aim of paying dividends with a payout ratio of 33% to net income attributable to the owners of the parent, because it is difficult to forecast business performance, the amount of dividend forecast is yet to be determined at this time. We will promptly disclose dividend forecast when it

becomes available.

On February 12, 2019, we plan to hold a financial results briefing for institutional investors and analysts. The presentation and explanation (voice) along with explanatory materials used on the day will be posted on our company website (<https://ir.gmo.jp/en/>) promptly after the meeting.

(Change of date indication)

Starting from "Fiscal Year 2018 Consolidated Financial Results," the date indication is changed from the Japanese era to the Christian era.

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1. Overview of Operating Results and Financial Condition

(1) Overview of operating results

Overview of the financial results for the year ended December 31, 2018

Under the corporate slogan “Internet for Everyone,” GMO Internet Group focuses resources on high growth Internet markets. Continued high growth in the Internet market is spurred by increased usage and diversification of smartphones and other mobile devices, the proliferation of social media, the emergence of new technologies including cloud, artificial intelligence, blockchain, and cryptocurrencies, and the new movements such as B2B, C2C, O2O and IoT. GMO Internet management views any growth in the volume of information available on the Internet or in the volume of transactions conducted over the Internet as an opportunity to grow profits as a group that provides Internet and service infrastructure.

Amidst such a business environment, (1) the Internet Infrastructure segment, already comprising multiple No. 1 products, reported record high sales supported by strong performance in all businesses in the segments including Payment and Security. (2) The Online Advertising & Media segment has focused on development and sales of proprietary products with the objective of responding to changes in the online advertising market. (3) The Internet Finance segment further improved its profitability due to big data analysis despite a year-on-year decline in transaction volume of over-the-counter FX transactions, our flagship products, and renewed its record profit. (4) In the Cryptocurrency segment, (i) Cryptocurrency exchange business has established revenue base and recorded operating profit, but (ii) Cryptocurrency mining business recorded extraordinary loss of ¥35,385 million associated with the restructuring of the Cryptocurrency mining business in light of changes in business environment such as a decline in cryptocurrency price and an unexpectedly steep rise in global hash rates. Following the business restructuring, we will review the revenue structure of our in-house mining business and continue operation of mining centers but will not develop, manufacture or sell mining machines. (5) The Incubation segment sold its shareholdings in relation to the initial public offering of the investee.

As a result, for the fiscal year ended December 31, 2018, the Group recorded net sales of ¥185,177 million (up 20.0% year-on-year), operating profit of ¥21,787 million (up 23.5% year-on-year), ordinary profit of ¥19,135 million (up 10.5% year-on-year) due to recording foreign exchange loss in the Cryptocurrency mining business, and net loss attributable to owners of the parent of ¥20,707 million (profit of ¥8,030 million for the year ended December 31, 2017) due to recording extraordinary loss associated with the restructuring of the Cryptocurrency mining business.

(Unit: ¥millions)

	Previous Fiscal Year	Current Fiscal Year	Change	% Change
Net Sales	154,256	185,177	30,921	20.0%
Operating Profit	17,642	21,787	4,145	23.5%
Ordinary Profit	17,315	19,135	1,820	10.5%
Profit attributable to Owners of the Parent (- represents Loss)	8,030	-20,707	-28,737	—

Net sales and Operating profit by segment for the consolidated fiscal year ended December 31, 2018

(Unit: ¥millions)

	Previous Fiscal Year	Current Fiscal Year	Change	% Change
Internet Infrastructure				
Net Sales	84,625	100,808	16,183	19.1%
Operating Profit	8,478	11,442	2,963	35.0%
Online Advertising & Media				
Net Sales	44,079	46,795	2,716	6.2%
Operating Profit	975	763	-212	-21.8%
Internet Finance				
Net Sales	26,382	30,718	4,335	16.4%
Operating Profit	7,985	10,758	2,772	34.7%
Cryptocurrency				
Net Sales	857	8,246	7,389	861.7%
Operating Profit	203	-1,362	-1,566	—
Incubation				
Net Sales	1,316	2,313	996	75.7%
Operating Profit	668	1,221	553	82.7%
Other				
Net Sales	1,983	1,527	-455	-23.0%
Operating Profit	-740	-1,106	-366	—
Adjustment				
Net Sales	-4,988	-5,233	-244	—
Operating Profit	69	70	0	—
Total				
Net Sales	154,256	185,177	30,921	20.0%
Operating Profit	17,642	21,787	4,145	23.5%

Segment results for the year ended December 31, 2018 are as follows. Effective January 1, 2018, the Group changed its reportable segments. Firstly, (1) following the new entry into the cryptocurrency mining business in the year ended December 31, 2017 and an increase in materiality of the cryptocurrency exchange business offered by GMO Coin with a surge in the transaction volume, “Cryptocurrency” segment was newly added to our reportable segments. As a result, the cryptocurrency exchange business previously included in “Internet Finance” was transferred to “Cryptocurrency” segment. And (2) “Mobile Entertainment” segment is now included in “Other.” Figures for the year ended December 31, 2017 were reclassified and presented under the new reportable segments.

1) Internet Infrastructure

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

i. Domain

Gateway to the Group’s infrastructure segment, the domain business continued to actively grow customer base with a low-pricing strategy. The number of domain registration and renewals during the year ended December 31, 2018 was 5.32 million (up 3.9% year-on-year), and total number of domains under management as of

December 31, 2018 was 6.40 million (up 4.8% year-on-year). Net sales were ¥8,479 million (up 3.5% year-on-year).

ii. Hosting & Cloud

The hosting & cloud business responds to growing diversification of client needs through shared, VPS, dedicated and cloud-based offerings under a multi-brand strategy. The number of web hosting contracts as of December 31, 2018 was 857 thousand (up 7.0% year-on-year) and net sales were ¥14,266 million (up 1.4% year-on-year).

iii. Ecommerce solutions

Ecommerce solutions comprises SaaS based services for online stores, and C2C handmade market, minne, and O2O support service. In the tailwind of expansion of the market, the segment has provided support to EC business operators including the improvement of cart system features and ongoing industry seminars, events and other initiatives. In order to make minne an overwhelmingly No.1 service, we have held offline events, strengthened smartphone app features, and enhanced sales promotion using coupons in addition to investment in promotion. As a result, the number of paid stores as of December 31, 2018 was 72 thousand (down 4.1% year-on-year), and total transaction volume was ¥287.7 billion (up 5.8% year-on-year) showing a steady growth partly due to increased spending per customer despite a loss of certain customers with low utilization ratio. For minne, total transaction volume was ¥12.0 billion (up 17.3% year-on-year), and net sales of the segment were ¥10,530 million (up 18.7% year-on-year).

iv. Security

As the global expansion of security brand GlobalSign progressed, direct sales targeting large corporations and active sales partners drove market share growth both in Japan and globally with the benefit of the penetration of Always-On SSL. Security reported net sales of ¥5,985 million (up 13.0% year-on-year), with overseas sales ratio of approximately 70%.

v. Payment

Payment services are mainly operated by GMO Payment Gateway and offer credit card settlement agency service. The market environment continues to be extremely favorable, with promotion of Ecommerce in new service areas beyond product sales and advancement in cashless payments. During the year ended December 31, 2018, attention was paid to the increase in the number of transactions and the transaction volume, with the expansion of money service business such as early payment services, transaction lending and payment after delivery services with the objective of supporting customers (merchants) in expanding sales. As a result of these efforts, the number of transactions and the transaction volume increased, and net sales increased significantly to ¥29,055 million (up 19.1% year-on-year).

vi. Provider

This sub-segment operates Internet provider services for consumers. Thanks to a strong sales growth mainly in web marketing with enhanced product lineup and also to solid OEM sales, the number of subscriptions at December 31, 2018 was 1,381 thousand (up 49.6% year-on-year) and net sales amounted to ¥26,282 million (up 42.9% year-on-year).

With expanded market share in all of the key Internet Infrastructure businesses, overall net sales amounted to ¥100,808 million (up 19.1% year-on-year). Operating profit showed a significant growth and amounted to ¥11,442 million (up 35.0% year-on-year) due mainly to growth in highly profitable products in Payment and Security business.

2) Online Advertising & Media

The Online Advertising & Media segment provides marketing solutions for online businesses. The following is a breakdown of results in each of the businesses comprising this segment.

i. Online Advertising

This sub-segment provides comprehensive Internet advertising services such as advertising agency and ad platform. The online advertising market has witnessed an increasing number of cases where, in addition to traditional operational advertising, video ads and online advertising are also used as mass advertising to improve “recognition,” and more and more advertisers are using online advertising. And the market is expected to continue expanding. For the year ended December 31, 2018, the advertising agency business recovered from a temporary downturn triggered by the ad fraud issues and has worked on measures to enhance its mid- to long-term competitive strengths including tightening the posting criteria to improve credibility of in-house ad network products. As a result, net sales amounted to ¥31,576 million (up 11.7% year-on-year).

ii. Internet Media

This sub-segment provides advertising space within our own smartphone and PC content and marketing support services. Net sales were ¥12,063 million (down 4.5% year-on-year) due to weak sales because of declined ad unit price and a decrease in sales of existing products despite an increase in the number of EC media users.

Overall, the Online Advertising & Media segment recorded net sales of ¥46,795 million (up 6.2% year-on-year), and operating profit of ¥763 million (down 21.8% year-on-year) due to impacts from deterioration of sales mix and ad fraud issues. The segment will continue to focus on development and sales of new proprietary products meeting market needs in addition to working on customer-related issues such as ad fraud.

3) Internet Finance

The Internet Finance segment operates online financial services for retail investors. During the year ended December 31, 2018, the segment has worked to increase customer base and transaction volume. The customer base has continued to increase with the number of OTC FX accounts increasing to 765 thousand (up 10.5% year-on-year) and the number of Securities accounts increasing to 372 thousand (up 12.6% year-on-year). Big data analysis is contributing to improvement in the profitability of the OTC FX trading which accounts for more than half of net sales and profit of the segment, despite a decline in the transaction volume.

Overall, the Internet Finance segment recorded net sales of ¥30,718 million (up 16.4% year-on-year) and operating profit of ¥10,758 million (up 34.7% year-on-year).

4) Cryptocurrency

The Cryptocurrency segment operates business pertaining to “mining” and “exchange” of cryptocurrency. Performance of each business is as follows.

i. Cryptocurrency exchange

In this business, GMO Coin, a consolidated subsidiary of GMO Financial Holdings, has been engaged in spot trading and leveraged transactions of cryptocurrency from the year ended December 31, 2017. During the year ended December 31, 2018, despite a decreasing trend of the transaction volume against a backdrop of reduced volatility of cryptocurrency, the number of account opening increased to 225 thousand. Net sales increased significantly to ¥4,036 million (up 431.1% year-on-year) as measures including position control proved effective.

ii. Cryptocurrency mining

This subsegment consisted of in-house mining business which operates mining centers and development, manufacture and sales of mining machines. With the expansion of mining facilities, the in-house mining business showed progress in cryptocurrency mining, but a decline in cryptocurrency price and an unexpectedly steep rise in hash rates pushed down profitability and net sales amounted to ¥4,210 million. Regarding the development, manufacture and sales of mining machines, we had been engaged in the manufacturing process but determined to terminate the business in consideration of increasingly fierce competition attributable to decreased demand for mining machines due to a decline in cryptocurrency price, as well as a decline in sales price.

Overall, the Cryptocurrency segment recorded net sales of ¥8,246 million and operating loss of ¥1,362 million (operating profit of ¥203 million in the previous corresponding term) due to loss in the cryptocurrency mining business despite operating profit in the cryptocurrency exchange business. We will review the revenue structure of our in-house mining business and continue operation of mining centers but will not develop, manufacture or sell mining machines.

5) Incubation

This segment is engaged in investing in internet related companies aimed at capital gains, supporting business expansion, and supporting corporate value improvement. For the year ended December 31, 2018, net sales were ¥2,313 million (up 75.7% year-on-year) and operating profit was ¥1,221 million (up 82.7% year-on-year) due to sale of shareholdings in relation to the initial public offering of the investee.

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

(Unit: ¥millions)

	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Net Sales	41,847	43,705	47,564	45,894	48,013
Operating Profit	5,652	5,269	6,514	5,535	4,468
Ordinary Profit	5,547	4,931	6,405	5,172	2,626
Profit attributable to Owners of the Parent (- represents Loss)	4,245	2,087	2,144	1,917	-26,856
Total Assets	749,160	758,529	753,269	781,543	752,627
Shareholders' Equity	43,697	44,891	47,559	48,550	52,422

(Reference 2) Quarterly Results by Segment/Business

(Unit: ¥millions)

I Net Sales by Segment

	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Internet Infrastructure					
Provider (ISP)	5,205	5,586	6,460	6,902	7,333
Domain	2,138	2,104	2,141	2,100	2,132
Hosting & cloud	3,511	3,527	3,519	3,614	3,604
Ecommerce solutions	2,448	2,379	2,510	2,620	3,019
Security	1,443	1,423	1,484	1,503	1,573
Payment	7,313	6,748	6,819	7,304	8,182
Other	1,304	1,619	1,887	1,418	1,283
Total	23,364	23,390	24,823	25,465	27,129
Online Advertising & Media					
Online advertising	6,928	8,339	7,058	7,895	8,282
Internet media	3,037	3,152	3,235	2,842	2,832
Internet research and other	822	774	718	728	934
Total	10,789	12,267	11,012	11,466	12,049
Internet Finance					
Total	6,973	8,151	7,560	7,493	7,512
Cryptocurrency					
Cryptocurrency exchange	869	192	1,420	1,369	1,053
Cryptocurrency mining	97	442	1,237	1,249	1,280
Total	966	635	2,657	2,619	2,334
Incubation					
Total	654	180	2,018	107	7
Sub total	42,749	44,625	48,072	47,152	49,033
Other	222	139	851	142	394
Adjustment	-1,125	-1,059	-1,358	-1,400	-1,415
Net Sales	41,847	43,705	47,564	45,894	48,013

II Operating Profit by Segment

	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Internet Infrastructure	2,503	2,587	2,766	2,930	3,157
Online Advertising & Media	238	311	65	59	326
Internet Finance	2,058	3,303	2,605	2,585	2,263
Cryptocurrency	531	-735	255	104	-986
Incubation	383	-54	1,564	-71	-216
Sub total	5,715	5,412	7,257	5,608	4,545
Other	-79	-159	-759	-91	-96
Adjustment	15	16	15	18	19
Operating Profit	5,652	5,269	6,514	5,535	4,468

(Reference 3) Description of businesses in each segment

Business Segment		Main Operations
Internet Infrastructure	Domain	<ul style="list-style-type: none"> • Domain registry services including “shop” and “tokyo” • Domain registrations services: Onamae.com, MuuMuu Domain, and VALUE-DOMAIN
	Hosting & Cloud	<ul style="list-style-type: none"> • Provision, operation, management, and maintenance of shared, VPS, dedicated and cloud-based web hosting services including Onamae.com Rental Server, GMO AppsCloud, ConoHa by GMO, Z.com Cloud, GMO Cloud VPS, GMO Cloud Altus, GMO Cloud Private, KaKing, Lolipop, heteml, and 30days Album
	Ecommerce Solutions	<ul style="list-style-type: none"> • SaaS based services for online store building including Color me shop! and MakeShop. • Operation of C2C handmade marketplace, minne • Operation of ecommerce/O2O support services, etc. • Web design, operational support and system consulting, etc.
	Security	<ul style="list-style-type: none"> • DomainSSL, OrganizationSSL, and other SSL certificates, code signing certificates, PDF document signing, client certificates and other digital certificate services
	Payment	<ul style="list-style-type: none"> • PG Multi-Payment Service for mail order and ecommerce business, comprehensive payment processing services for the public sector, and finance-related service including early payment service, transaction lending, and GMO payment after delivery
	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, reward advertising, affiliate 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, and Ad distribution to own media • SEM Media: Sales of SEO.
	Internet research and other	<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, etc.
Cryptocurrency	Cryptocurrency exchange	<ul style="list-style-type: none"> • Spot trading and leveraged transactions of cryptocurrency
	Cryptocurrency mining	<ul style="list-style-type: none"> • Operation of mining centers
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)

As of December 31, 2018, total assets increased ¥3,467 million (0.5%) from December 31, 2017 to ¥752,627 million. Major factors included an increase of ¥25,089 million (21.1%) in cash and deposits, an increase of ¥1,583 million (18.3%) in tangible fixed assets, a decrease of ¥17,705 million (3.7%) in various assets due to fluctuations in customer assets in the Finance segment, etc. (deposits, margin transaction assets, loan secured by securities, short term guarantee deposits, and variation margin paid), and a decrease of ¥4,293 million (21.0%) in intangible fixed assets.

(Liabilities)

As of December 31, 2018, liabilities decreased ¥18,600 million (2.8%) from December 31, 2017 to ¥656,205 million. Major factors included an increase of ¥17,450 million as a result of issuance of convertible bonds with equity warrants, etc. by GMO Payment Gateway, a consolidated subsidiary, an increase of ¥10,383 million (40.0%) in amount payable, a decrease of ¥29,284 million (6.9%) in various liabilities due to fluctuations in customer assets in the Finance segment, etc. (deposits received, margin transaction liability, guarantees received, variation margin received, and debt secured by securities) and a decrease of ¥22,313 million (19.8%) in debt.

(Net Assets)

As of December 31, 2018, net assets increased ¥22,067 million (29.7%) from December 31, 2017 to ¥96,421 million. Major factors included an increase of ¥30,981 million in capital surplus, an increase of ¥13,338 million (43.6%) in non-controlling minority equity, and a decrease of ¥23,434 million (61.5%) in earned surplus (consisting mainly of a decrease from recording loss attributable to owners of the parent totaling ¥20,707 million and a decrease from dividend payments of ¥2,727 million).

Cash Flow

As of December 31, 2018, cash and equivalents increased ¥25,832 million (21.9%) from December 31, 2017 to ¥143,650 million. The following is a summary of cash flow activity during the year ended December 31, 2018.

(Cash Flow from Operating Activities)

Inflow in operating activities was ¥13,127 million (¥5,481 million of inflow in the previous corresponding term). Major inflow included loss related to the Cryptocurrency mining business restructuring (¥35,385 million) and an increase in amount payable (¥10,285 million). Major outflow included net loss before adjustment for tax etc. (¥16,975 million) and an increase in various assets due to increased customer assets in the Internet Finance segment (¥11,578 million).

(Cash Flow from Investing Activities)

Outflow from investing activities totaled ¥29,899 million (¥13,212 million of outflow in the previous corresponding term). Major outflow included acquisition of tangible fixed assets such as mining equipment (¥24,464 million) and acquisition of intangible fixed assets (¥4,408 million).

(Cash Flow from Financing Activities)

Inflow from financing activities totaled ¥43,960 million (¥35,074 million of inflow in the previous corresponding term). Major outflow included changes in short and long term debt (¥22,314 million), dividend payments (¥2,730 million), and dividend payments to non-controlling interests (¥2,206 million). Major inflow included sales of shares of GMO Financial Holdings, Inc. and GMO Payment Gateway, Inc., both consolidated subsidiaries, (¥54,961 million) and issuance of convertible bonds with equity warrants by GMO Payment Gateway (¥17,437 million).

(Reference) Cash Flow Indicators

	FYE12/2014	FYE12/2015	FYE12/2016	FYE12/2017	FYE12/2018
Shareholders' equity ratio (%)	6.1	7.1	6.7	5.8	7.0
Shareholders' equity ratio (Market value) (%)	25.0	34.0	29.4	29.5	22.5
Ratio of cash flow to Interest-bearing liabilities	2.1	—	18.6	17.5	8.7
Interest coverage ratio	49.7	—	6.9	11.5	19.3

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, 2019, 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 cryptocurrency price and global hash rates' movement in the cryptocurrency business, (2) Potential impact of economic situations and market conditions in the Internet finance segment, and (3) When and how much capital gains will be realized in the Incubation segment. Accordingly, we will not disclose the consolidated results forecast for the fiscal year ending December 31, 2019.

(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 ¥29.5 per share for the year ended December 31, 2018, as consolidated shareholders' equity increased due to partial sales of listed subsidiaries' shares although the Group recorded consolidated net loss (net loss attributable to owners of the parent).

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, but judgments concerning business conditions and future business should be made carefully in consideration of the matters outlined below.

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) Cryptocurrency engaging in business related to cryptocurrency mining and exchange, and (5) Incubation which invests in Internet related ventures. We believe that there is a significant competitive advantage derived from the diversity of our operations. However, the possibility exists of increased competition in the future. It means, if competition for gaining new customers intensifies and revenue declines in the future, it may become necessary to reduce fees and increase capital expenditure or advertising. This could potentially have a material impact on business operations and performance.

ii. Innovation in Technology

The progress of Internet related technology is rapid and subsequently industry standards and customer needs are constantly changing. As a result, new services and new products are constantly emerging. If we are slow in taking up new technologies, we risk the services and equipment we provide becoming stale, leading to reduced competitiveness and a potentially negative impact on 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's 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 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 recover 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 Compliance Risks

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, and 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 and the Right to Demand Disclosure of Identification Information of the Senders

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

This law was 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 transactions of Internet mail-orders sales (and return of goods), junk mail issues, and leakage of credit card information, online transactions are also subject to the regulations.

As our email advertising business and distribution of advertisement e-mail to users are subject to this law, it is possible that the operation of this business and promotional email advertising could be restricted as a result of the revision of this law.

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

This law was enacted in 2002 with an 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.

This law pertains to introducing an opt-in system in place of the previous opt-out system, improving efficacy of laws, and strengthening international cooperation, with respect to transmission of specified emails.

As our email advertising business and distribution of advertisement e-mail to users are subject to this law, it is possible that the operation of this business and promotional email advertising could be restricted as a result of the revision of this law.

(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, this law 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 this law, 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.

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 this law 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) Banking Act

Under the license from the Kanto Local Finance Bureau, the Company, as a banking agency with GMO Aozora Net Bank as a principal bank, mediates the opening of Yen-denominated savings account, and therefore is subject to the Act. If an amendment to the Act requires changes to our compliance system or information security system, it may have an impact on the operation of our banking agency business. Although we ensure to make a careful judgment regarding the legality and appropriateness of our business activities as a banking agent, in the event that an

unexpected amendment to the Act results in a situation where we will be in violation of the Act, the Group's business activities and trust may be negatively impacted by administrative sanction and other actions.

(k) 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.

(l) Gang Exclusion Ordinances

On October 10, 2011 the Gang Exclusion Ordinance was enacted by the Tokyo government and similar 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 terminate 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 games 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) Internet Infrastructure

i. Domain

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 VIII(ii) Exchange rate risks).

ii. Hosting & Cloud

In the web hosting market customer needs are continuously evolving. The Group operates under the multi-brand strategies to respond to these changes in customer needs, 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.

With the increase in C2C transactions supported by the spread of smartphones, the handmade market mainly for handicrafts and craftwork for hobby is also expected to continue growing. However, if new regulations regarding 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. Although the Group derives competitive advantage from having and operating certification authority, if competition in this space increases, for example, as a result of emergence of freemium model, operating results could be impacted.

In addition, the Group's security business operates around the world, including Japan, North America, Europe, Russia and Asia, and the higher overseas sales ratio results in higher currency exchange fluctuation risks. (See VIII(ii) Exchange rate risks).

v. Payment

As entry barriers in this market are extremely high, there are only a few companies, including the Group, dominating the Japanese market. Under the favorable business environment with an expanding EC market, the Group manages to differentiate it from its competitors and maintain high growth and revenue through development and provision of products and services meeting the customer (merchant) needs, settlement agent service, value-added service for sales increase of customers, comprehensive merchant support system covering from introduction of service to its operation, establishment and operation of stable core system responsive to the cutting-edge technology, and reliability as a company listed on the First Section of the Tokyo Stock Exchange. However, if the Group becomes

unable to provide service due to unexpected system failure, etc., it could impact service provision and be damaging to brand trust - and this could negatively impact consolidated operating results.

Also, the Group extends credit through transaction lending and money service such as "GMO payment after delivery." Although the credit information is reviewed in accordance with certain criteria, if an amount exceeding our forecast becomes uncollectible, it could negatively impact the Group's operating results and financial condition. This service also requires fund in hand depending on the business size.

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 the Group's operating results and business development.

(2) Online Advertising & Media

i. Online Advertising

a. Market Trends

In the online advertising market, advertising budgets of advertisers are influenced by economic climate and market conditions, and these factors could potentially impact the Company's operating results. If any of online advertising media agencies, our clients, is involved in so-called "ad fraud," it may result in decreases in the exposure of advertisement by advertisers affected by the ad fraud as well as our advertisement handling volume, which could negatively impact the Group's operating results.

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 our services lose competitive advantage due to intensifying competition, the Group's 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, our media value will decline and the Group's operating results and business development may be impacted. Further, the Group may be significantly affected by a decline in unit price or changes in contract terms due to the moves of particular advertising network providers or major media, and therefore the overall results of the Group may deteriorate.

b. Google

The Group provides SEO services to online business operators. Google is a major player in the search space, and if we are slow in responding to changes in search algorithms by Google, the Group's operating results and business development 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 is based on the expansion of the Japanese online research market through transition from traditional research methods to online research and actualization of potential customers who have not previously undertaken market

research. However, if the market does not grow as we predicted, the Group's operating results and business development may be impacted.

b. Competition Trends

Entry barriers to the online research market are not high, and we expect to see new entrants. We seek to differentiate our service by expanding our research panel and establishing strategic partnerships with other research panels, however if our services lose competitive advantage due to intensifying competition, the Group's operating results may be impacted.

(3) Internet Finance

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, various restrictions under the relevant laws and regulations, and Financial Services Agency's supervision. 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, various restrictions under the relevant laws and regulations, and Financial Services Agency's supervision. 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 Virtual Currency Exchange Association and Japan Payment Service Association, self-censorship organizations, and complies with their regulations.

These companies operate under the aforementioned laws and other regulations, but 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 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, 2018 GMO CLICK Securities' capital adequacy ratio was 448.5%, and FX PRIME by GMO's ratio was 707.6%. 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 development and operating results.

iii. Business Environment

GMO CLICK Securities engages in financial instruments transactions including spot trading and margin trading of

securities, foreign exchange trading, stock market index futures, stock market index options, OTC CFD trading and loan-based crowdfunding. FX PRIME by GMO engages in foreign exchange trading, and GMO Coin, Inc. engages in cash and margin trading with cryptocurrency, and therefore these companies' revenues 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 the operating results of these companies and the Group if transaction fees are lowered without an offsetting 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 counterparty transaction is not executed properly due to drastic fluctuations in the market or a counterparty's systems malfunction, a loss may be incurred depending on 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 security or margin deposit (in cash or securities) of a certain percentage of the transaction from customers conducting margin trading of securities, stock index futures or stock index future options or cryptocurrency. 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, these companies terminate the transactions by forcibly settling the customer's position. The customer is charged for the difference if the settlement loss arising from the forced settlement exceeds the security or margin deposit, but if the customer doesn't respond to such demand, all or part of the amount may be written off as credit loss.

In cover transactions with counterparties, these companies pledge certain percentage of the transaction value as security or margin deposit (in cash or securities). If a counterparty to whom security or margin deposit is pledged experiences deterioration of its financial condition or files for legal proceedings, these companies will demand such counterparty to settle open positions, return security or margin deposit and pay the unpaid balance. However, if such counterparty does not respond to such demand, these companies may write off all or part of the uncollectible amount as credit 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 are executed through 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 or loss of personal information, cryptocurrency theft, destruction or falsification of 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) Cryptocurrency business

This section describes risks related to the cryptocurrency mining business. Please refer to IV. Risks by Sub-segment (3) Internet Finance Segment for risks related to the cryptocurrency exchange business.

i. Laws and Regulations

This business is exposed to legal and political risks related to holding or use of cryptocurrency or mining. If changes to laws and regulations or political measures impose a restriction on holding or transaction of cryptocurrency or mining, the Company's business performance and development may be negatively affected.

ii. Market Trends

In this business, we receive cryptocurrency (e.g. bitcoins) as consideration for mining, but because the cryptocurrency has high price fluctuation risk, it may have a significant impact on the Group's performance results. As for the bitcoins which we mainly mine, there are only 21 million bitcoins that can be mined and 17.5 million bitcoins have already been mined as at December 2018. As the yearly bitcoin inflation is reduced by 50% due to a once-every-four-year event "halving" until the total number of bitcoins mined reaches the total supply of 21 million in 2140, the yearly inflation is expected to be 657 thousand bitcoins in 2019, and 328 thousand bitcoins in 2020 due to "halving." Although we believe that a cap on the total supply makes bitcoin more valuable which should lead to higher prices, such decline in bitcoin transaction fees may have a significant impact on the Group's business activities and performance 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 affecting a key member of the management team, in particular Masatoshi Kumagai, Group CEO, arises, the Group's ability to operate smoothly may be impacted.

VI Human Resource Risks

The most important resource for the Group is its human resources. Recruiting and development of talented staff is essential to both new service development and quality improvement of existing services. If it becomes difficult to attract staff due to intensifying recruiting competition or if we lose key staff to other companies, the Group's business performance and financial condition 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 and operating results may be affected.

Further, while the Group makes every effort not to infringe on rights held by third parties through investigating pre-registration rights, it is possible that an unintentional oversight in investigation is identified or an infringement lawsuit is filed by a third party against the Group for the purpose of claiming large settlement money regardless of whether there was actually an infringement. This could 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, an incident arises with a third party in the course of business, fraudulent or improper activity committed by a Group employee is detected, or factually inaccurate reports are made, 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 subsequently becomes associated with the same or a similar word that has negative connotations, it 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 Market Risks

i. Interest Rate Fluctuation Risks

The Group predominantly procures business funding in the form of loans from financial institutions. As of December 31, 2018, consolidated interest-bearing liabilities (sum of short-term and long-term debt and bonds) amounted to ¥90,342 million. Therefore the financial market movements could have a material impact on the Group's performance.

ii. Exchange Rate Risks

The consolidated financial statements are prepared by translating revenue, costs, assets and liabilities of foreign consolidated subsidiaries into Japanese yen. Some of the Group's businesses make foreign currency-denominated payments to overseas companies. The Group endeavors to minimize exposure to exchange rate fluctuation risks through hedge transactions using forward contracts and other derivatives, but fluctuations in foreign exchange markets could potentially have a significant impact on the Group's 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 operating results, financial condition or creditworthiness deteriorates, the Group may be forced to make repayment immediately, pay a higher interest rate, be subject to an accelerated repayment schedule, or be required to pledge additional collateral. Further, instability in the finance market environment or deterioration of the Group's creditworthiness could prevent the Group from procuring funds as planned, and this could impact the Group's business development, operating results and 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 beyond 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 or overwriting of important data, data leakage to a third party or a suspension of trading. Such incidences could result in lost profit opportunities, damage claims or administrative directives from regulatory bodies ordering a suspension of business or other action, and thus impact the Group's performance.

XI Risks associated with Internal Controls

In line with the internal control reporting system set forth in the Financial Instruments and Exchange Act, the Group continues to improve internal control system through measures including reinforcement of internal control over financial reporting and establishment of the Group Internal Audit department under the direct control of Chief Executive Officer and a whistleblower system (GMO Helpline). However, establishment of sufficient internal management system cannot catch up with a rapid increase in staff or rapid growth of the business, or significant deficiencies are identified with the Group's internal control, social credibility of the Group may be impaired, and the Group's business and performance may be affected.

XII. Natural Disaster Risks

Natural disasters including earthquakes, lightning, typhoons, tsunami and bad weather, or prolonged power outages, fire, disease, radioactive contamination, intense solar storms, meteorite showers and other disasters that are beyond our control could impact the Group's business operation or continuity. The Group has business continuity plans taking into consideration every possible scenario, but if these events cause immense human suffering and property damage, it could impede the Group's ability to continue operations.

2. The Corporate Group

GMO Internet Group comprises GMO Internet, Inc. and its 109 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, management support for ecommerce/ O2O business operators	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.
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	Internet research business	GMO Research, Inc.
Internet Finance	Internet finance	Operation of online securities trading and FX trading services	GMO Financial Holdings, Inc. GMO CLICK Securities, Inc. FX Prime by GMO Corporation GMO-Z.com Forex HK Limited GMO-Z.com Forex UK Limited
Cryptocurrency	Cryptocurrency exchange	Spot trading and leveraged transaction of cryptocurrency	GMO Coin, Inc.
	Cryptocurrency mining	Operation of mining centers	GMO Internet, Inc. and its overseas subsidiaries
Incubation	Venture capital	Investment in unlisted Internet ventures	GMO VenturePartners, Inc.

3. Management Policy

(1) Basic Management Principles

Under the corporate slogans “Internet for Everyone,” and as “Japan’s Leading All-in Provider of Internet Services,” we focus our business resources on the internet and service infrastructure, the “place” for the internet. We conduct business activities with an aim to contribute to society by redefining the industry and fostering a vibrant Internet culture as well as inspiring enthusiasm in our customers and putting smiles on their faces.

(2) Target management indicators

GMO Internet Group is committed to growing profits. Specifically, the Group focuses on operating profit ratio and operating profit growth ratio as an important management indicator. In a rapidly changing industry environment, we believe that mid-term management plans are of limited use and could in fact be misleading to investors and shareholders. Accordingly, we do not develop or disclose the mid-term management plans, but we are continuously aiming for further improvement.

(3) Medium to Long-Term Business Strategies

The Group’s Internet Infrastructure, Online Advertising & Media, Internet Finance, Cryptocurrency and Incubation business segments operate under the corporate slogan “Internet for Everyone.” Going forward, we expect opportunities to use and time spent on the internet to further increase due to factors including the penetration and diversification of smartphone and other devices as well as a shift from existing services to online services. The Group will constantly strive to improve highly functional and convenient services and provide number one service with the cutting-edge technology, with an aim to contribute to the growth and development of the internet.

(4) Company Challenges

1. Group Strategy

(i) Pursuit of group synergy

The Group is comprised of the Company and its 109 consolidated subsidiaries, and each company retains autonomous decision-making power in order to act with speed and agility in the constantly evolving Internet market. At the same time, we share a common vision within the Group with an aim to mutually generate synergies and ensure efficient use of the Group’s management resources.

(ii) Global development

The Group is actively expanding its 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.” 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, we aim to become the world No. 1 company in the cryptocurrency service.

2. Business Strategy

(i) Internet Infrastructure

In this segment, products and services are developed in-house to enable us to provide products and services meeting customer needs and to offer one-stop service for business platform for online businesses. The majority of the products generates recurring revenue, which is the strong revenue base for the Group. 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. Under the cost-leadership strategy, the segment is actively expanding customer base in domestic and global markets and became the world number one in FX margin

transaction volume for the seventh consecutive year. Going forward we will continue to improve trading costs and other aspects of the customer experience.

(iv) Cryptocurrency

The Cryptocurrency business operates in mining, exchange and payment fields. In the mining field, as announced in the news release dated December 25, 2018, "Recording Extraordinary Loss Related to the Cryptocurrency Mining Business Restructuring," we will no longer develop, manufacture or sell mining machines but continue in-house mining business which operates mining centers after reviewing its revenue structure. In the exchange field (the cryptocurrency exchange business operated by GMO Coin), we will aim to be the number one cryptocurrency exchange/clearing house in Japan by taking advantage of the technique and know-how accumulated in the finance business. In the payment field, we plan to launch a Japanese yen-pegged stablecoin "GMO Japanese YEN" in overseas markets.

3. Technology Development

As discussed in "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 prepares its consolidated financial statements based on Japanese GAAP in consideration of comparability between periods and with other companies.

Regarding the application of IFRS, we are monitoring domestic and international trends with a view to adapting as necessary.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2017)	Current Fiscal Year (As of Dec 31, 2018)
Assets		
Current Assets		
Cash and deposits	119,006	144,096
Trade notes and accounts receivable	17,597	20,725
Operational investment securities	3,910	7,006
Cryptocurrency received	29,873	13,903
Securities segment deposits	286,848	269,696
Securities segment margin transaction assets	113,833	81,551
Securities segment loan secured by securities	—	7,558
Securities segment short term guarantee deposits	46,996	57,579
Securities segment variation margin paid	26,696	40,282
Deferred tax asset	3,114	3,933
Other	62,354	70,702
Provision for doubtful debts	-3,119	-2,570
Total Current Assets	707,112	714,465
Fixed Assets		
Tangible fixed assets		
Buildings and structures (net amount)	1,374	2,079
Tools and equipment (net amount)	3,291	5,054
Lease assets (net amount)	2,849	2,566
Other (net amount)	1,141	540
Total tangible fixed assets	8,656	10,240
Intangible fixed assets		
Goodwill	2,310	1,843
Software	5,140	5,818
Other	12,956	8,451
Total intangible fixed assets	20,407	16,113
Investments and other assets		
Investment securities	7,701	7,617
Deferred tax asset	2,402	1,210
Other	3,245	7,168
Provision for doubtful debts	-366	-4,189
Total investments and other assets	12,983	11,806
Total Fixed Assets	42,047	38,161
Total Assets	749,160	752,627

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2017)	Current Fiscal Year (As of Dec 31, 2018)
Liabilities		
Current liabilities		
Trade notes and accounts payable	8,672	10,833
Short term debt	88,812	75,112
Current portion of long term debt	2,098	5,708
Amount payable	25,980	36,363
Cryptocurrency received	29,873	13,903
Securities segment deposits received	54,729	43,131
Securities segment margin transaction liability	48,639	24,995
Securities segment guarantees received	294,916	309,449
Securities segment variation margin received	4,095	5,589
Securities segment debt secured by securities	22,782	12,714
Accrued corporate tax etc.	2,107	7,240
Provision for bonuses	1,034	1,684
Provision for bonuses to directors	44	752
Advance payment received	7,191	7,644
Deposits received	47,462	55,881
Other	7,900	9,918
Total Current Liabilities	646,343	620,924
Fixed Liabilities		
Convertible bonds with equity warrants	–	17,450
Long term debt	21,745	9,522
Deferred tax liability	367	414
Other	4,445	6,306
Total Fixed Liabilities	26,559	33,693
Statutory Reserve		
Financial instruments transaction liability reserve	1,903	1,587
Total Statutory Reserve	1,903	1,587
Total Liabilities	674,805	656,205
Net Assets		
Shareholders' Equity		
Capital stock	5,000	5,000
Capital surplus	–	30,981
Earned surplus	38,113	14,678
Treasury stock	-23	-7
Total Shareholders' Equity	43,089	50,651
Accumulated Other Comprehensive Income		
Other securities valuation differences	284	789
Deferred hedging profit/loss	–	0
Foreign currency translation adjustments	323	981
Total Accumulated Other Comprehensive Income	608	1,771
Equity Warrants	73	77
Non-controlling Minority Equity	30,582	43,920
Total Net Assets	74,354	96,421
Total Liabilities and Net Assets	749,160	752,627

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2017-12.31.2017)	Current Fiscal Year (01.01.2018-12.31.2018)
Net Sales	154,256	185,177
Cost of Sales	78,336	94,896
Gross Profit on Sales	75,920	90,281
Sales, General & Administrative Expenses	58,277	68,494
Operating Profit	17,642	21,787
Non Operating Revenue		
Interest received	56	123
Dividends received	98	312
Currency translation gain	28	—
Gain on investments in partnership	18	—
Expired points gain	36	16
Other	192	326
Total Non Operating Revenue	429	778
Non Operating Expenses		
Interest paid	165	310
Commission paid	42	173
Currency translation loss	—	1,581
Equity method investment loss	411	829
Loss on investments in partnership	—	15
Other	137	520
Total Non Operating Expenses	756	3,430
Ordinary Profit	17,315	19,135
Extraordinary Profit		
Gain on sale of investment securities	39	739
Reversal of reserve for securities transaction liability	258	316
Other	369	118
Total Extraordinary Profit	667	1,174
Extraordinary Loss		
Loss on cryptocurrency mining business restructuring	—	35,385
Impairment loss	932	1,385
Special investigation expense	172	—
Loss on change in equity	186	—
Other	567	514
Total Extraordinary Loss	1,859	37,285
Net Profit before Adjustment for Tax etc. (- represents Loss)	16,124	-16,975
Corporate, Municipal and Enterprise Taxes	6,921	-1,861
Corporate Tax etc. Adjustment	-2,873	189
Total Corporate Taxes etc.	4,047	-1,672
Net Profit (- represents Loss)	12,076	-15,302
Profit attributable to non-controlling Interests	4,045	5,404
Profit attributable to Owners of the Parent (-represents Loss)	8,030	-20,707

Consolidated Statement of Comprehensive Income

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2017-12.31.2017)	Current Fiscal Year (01.01.2018-12.31.2018)
Net Profit (- represents Loss)	12,076	-15,302
Other Comprehensive Income		
Other securities valuation differences	48	1,994
Deferred hedging profit/loss	-65	0
Foreign currency translation adjustments	142	680
Share of other comprehensive income of affiliates accounted for using equity method	210	101
Total other comprehensive income	336	2,777
Comprehensive Income	12,413	-12,525
(Breakdown)		
Comprehensive income attributable to Owners of the Parent	7,981	-19,544
Comprehensive income attributable to Non- controlling Interests	4,431	7,018

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

Previous Accounting Term (01.01.2017 – 12.31.2017)

(Unit: ¥millions)

	Shareholders' Equity				
	Capital	Capital Surplus	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)

	Accumulated Other Comprehensive Income				Equity Warrants	Non-controlling Minority Equity	Total Net Assets
	Other Securities Valuation Differences	Deferred Hedging Profit/Loss	Foreign Currency Translation Adjustments	Total Accumulated 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 the current term (net amount)	-15	-65	31	-48	-7	4,011	3,955
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

Current Accounting Term (01.01.2018 – 12.31.2018)

(Unit: ¥millions)

	Shareholders' Equity				
	Capital	Capital Surplus	Earned Surplus	Treasury Stock	Total Shareholders' Equity
Beginning balance	5,000	—	38,113	-23	43,089
Changes during term					
Dividends			-2,727		-2,727
Loss attributable to Owners of the Parent			-20,707		-20,707
Disposition of treasury stock		-3		15	11
Changes in shareholders' interests due to transactions with non-controlling interests		30,984			30,984
Changes in items other than shareholders' equity in the current term (net amount)					—
Total changes during term	—	30,981	-23,434	15	7,561
Balance at end of current term	5,000	30,981	14,678	-7	50,651

(Unit: ¥millions)

	Accumulated Other Comprehensive Income				Equity Warrants	Non-controlling Minority Equity	Total Net Assets
	Other Securities Valuation Differences	Deferred Hedging Profit/Loss	Foreign Currency Translation Adjustments	Total Accumulated Other Comp Income			
Beginning balance	284	—	323	608	73	30,582	74,354
Changes during term							
Dividends							-2,727
Loss attributable to Owners of the Parent							-20,707
Disposition of treasury stock							11
Changes in shareholders' interests due to transaction with non-controlling interests							30,984
Changes in items other than shareholders' equity in the current term (net amount)	504	0	657	1,162	4	13,338	14,505
Total changes during term	504	0	657	1,162	4	13,338	22,067
Balance at end of current term	789	0	981	1,771	77	43,920	96,421

(4) Consolidated Statement of Cash Flows

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2017-12.31.2017)	Current Fiscal Year (01.01.2018-12.31.2018)
Cash Flow from Operating Activities		
Net Profit before tax etc. (- represents loss)	16,124	-16,975
Depreciation expenses	5,091	8,369
Impairment loss	932	1,385
Amortization of goodwill	790	584
Gain or loss on change in equity (- represents gain)	186	-
Interest and dividends received	-154	-436
Interest paid	165	310
Equity method investment gain or loss (- represents gain)	411	829
Gain or loss on sale of investment securities (- represents gain)	-39	-739
Gain or loss on sale of stock in subsidiaries and affiliates (- represents gain)	-78	75
Insurance Income	-266	-33
Special investigation expense	172	-
Information security measures expense	273	48
Loss on cryptocurrency mining business restructuring	-	35,385
Change in provision for doubtful debts (- represents decrease)	1,978	3,276
Change in financial instruments transaction liability reserve (- represents decrease)	-258	-316
Change in provision for bonuses (- represents decrease)	71	1,364
Change in accounts receivable (- represents increase)	-630	-2,808
Change in purchase debts (- represents decrease)	-9,320	-4,608
Change in amount payable (- represents decrease)	4,714	10,285
Change in deposits received (- represents decrease)	10,052	8,419
Change in securities segment deposits (- represents increase)	-30,366	17,151
Change in securities segment short term guarantee deposits (- represents increase)	-5,731	-10,583
Change in securities segment margin variation paid and received	-2,203	-12,093
Changes in securities segment deposits and guarantees received (- represents decrease)	41,989	2,934
Changes in securities segment margin trading assets and liabilities	-28,338	8,638
Changes in securities segment debt secured by securities (- represents decrease)	20,648	-10,068
Changes in securities segment loan secured by securities (- represents increase)	-	-7,558
Other	-13,931	-11,963
Sub total	12,282	20,875
Interest and dividends received	209	453
Interest paid	-478	-679
Insurance income received	185	33
Special investigation expense paid	-172	-
Information security measures expense paid	-273	-48
Corporate tax etc. paid	-6,271	-7,508
Cash Flow from Operating Activities	5,481	13,127

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2017-12.31.2017)	Current Fiscal Year (01.01.2018-12.31.2018)
Cash Flow from Investing Activities		
Payment of fixed term deposit	-5,109	-206
Income from return of fixed term deposit	4,197	906
Expenditure on acquisition of tangible fixed assets	-2,770	-24,464
Expenditure on acquisition of intangible fixed assets	-8,234	-4,408
Expenditure on acquisition of investment securities	-474	-465
Income accrued on sale of investment securities	73	774
Expenditure on origination of loans receivable	-517	-1,810
Expenditure on the acquisition of subsidiary stock resulting in change in scope of consolidation	-31	-69
Income accrued on the acquisition of subsidiary stock resulting in change in scope of consolidation	20	-
Income accrued on the sale of subsidiary stock resulting in change in scope of consolidation	69	0
Other	-436	-154
Cash Flow from Investing Activities	-13,212	-29,899
Cash Flow from Financing Activities		
Net increase or decrease in short term loans (- represents decrease)	28,313	-13,701
Income accrued on long term debt	16,135	17,190
Expenditure on repayment of long term debt	-3,313	-25,804
Income accrued on issuance of convertible bonds with equity warrants	-	17,510
Expenditure on issuance of convertible bonds with equity warrants	-	-72
Gain on sale and leasebacks	-	980
Repayment of finance lease and installment obligations	-1,789	-1,787
Income from investment partnership	1,135	1,635
Expenditure on repayment to investment partners	-202	-1,129
Income from disposal of treasury stock in subsidiary	19	23
Purchase of treasury stock in subsidiary	-	-1,062
Revenue accrued from non-controlling minority equity	293	130
Acquisition of treasury stock	-1,182	-
Payment of dividends	-2,665	-2,730
Payment of dividends to non-controlling minority shareholders	-1,649	-2,206
Expenditure on acquisition of subsidiary stock without change in scope of consolidation	-17	-
Income accrued on sale of subsidiary stock without change in scope of consolidation	-	54,961
Other	-	21
Cash Flow from Financing Activities	35,074	43,960
Currency Translation Adjustment on Cash and Equivalents	346	-1,354
Change in Cash and Equivalents (- represents decrease)	27,690	25,832
Balance of Cash and Equivalents at Beginning of Term	90,125	117,817
Increase in Cash and Equivalents due to New Consolidation	1	-
Balance of Cash and Equivalents at End of Term	117,817	143,650

(5) Notes to consolidated financial statements

Notes regarding going concern assumption

None

Significant items concerning the consolidated financial statements

1. Items concerning the scope of consolidation

(1) Number of consolidated subsidiaries: 109 (including 6 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 GMO Medical Reservations Technology Co., Ltd. were newly acquired, and GMO GFF Limited Partnership and nine other companies were newly established.

The following companies were excluded from the consolidation during the current fiscal year for the following reasons: GMO Shift-One, Inc. was absorbed to other group company, shares of GMO-Z.com Switzerland AG were sold, and APST, Inc. and two other companies completed the liquidation proceedings.

(2) Names of significant non- consolidated subsidiaries

Patent Incubation Capital, Inc.

Reasons for exclusion from the consolidation

All 19 non-consolidated subsidiaries are small-scale companies. None of the companies' total assets, sales, net profit (corresponding to the equity share) and earned surplus (corresponding to the equity share) have a significant impact on consolidated financial statements.

2. Items concerning application of the equity method

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

Names of significant equity method affiliates:

GMO Aozora Net Bank, Ltd.

GMO Aozora Net Bank, Ltd. changed its name from Aozora Trust Bank, Inc. on June 1, 2018.

(2) Major non-consolidated subsidiaries and affiliates not accounted for by equity method

Patent Incubation Capital, Inc.

Net profit or loss (corresponding to the equity share) and earned surplus (corresponding to the equity share), etc. of 19 non-consolidated subsidiaries and three affiliates (HUMEIA REGISTRY Co. Ltd, and two other companies) have insignificant impact on overall performance, individually and collectively, and therefore they are excluded from the scope of application of the equity method.

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

The following consolidated subsidiaries have different year-end from the consolidated fiscal year-end.

Close of fiscal year: September 30

GMO Payment Gateway, Inc.

GMO Epsilon, Inc. and 10 other companies

Close of fiscal year: March 31

GMO Globesign Certificate Services Private Limited and 1 other company

Close of fiscal year: May 31

GMO Venture Partners 4 Investment Limited Partnership and 4 other companies

The consolidated financial statements are prepared based on the financial statements with a provisional closing as of the consolidated fiscal year-end.

Previously, the financial statements with a provisional closing as of November 30 were used for GMO Venture Partners 4 Investment Limited Partnership and 4 other companies, with adjustments made to reflect significant transactions that have occurred between November 30 and the consolidated fiscal year-end. However, in order to further ensure fair disclosure of the consolidated financial statements, we changed the method to use the financial statements with a provisional closing as of the consolidated fiscal year-end from the fiscal year ended December 31, 2018. As a result of this change, the consolidated financial statements for the year ended December 31, 2018 includes the results for the 13 months from December 1, 2017 to December 31, 2018, with adjustments through the consolidated statement of income.

The impact of this change is insignificant.

4. Items concerning accounting policies

(1) Valuation criteria and method for major assets

(i) Marketable securities

Available for sale securities

Market value method (cost of sales is 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 market value at year-end. All valuation differences are included directly in net assets and cost of sales 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 for internal use is amortized using the straight-line method over an estimated useful life (generally five years).

- (iii) Lease Assets
 - Finance lease transactions that do not transfer ownership
 - Depreciated using the straight-line method over the lease term with the residual value of zero.
- (3) The calculation of significant reserves
 - (i) Allowance for doubtful debt
 - In order to provide for credit loss, allowance for estimated uncollectible amount is recorded based on the credit loss ratio for performing accounts and based on individual assessment of collectibility for non-performing accounts.
 - (ii) Allowance for bonuses
 - In order to provide for the bonus payment to employees, the estimated bonus amount attributable to the current year is recorded.
 - (iii) Allowance for Director bonuses
 - In order to provide for the bonus payment to directors, the estimated bonus amount attributable to the current year is recorded.
 - (iv) Financial transaction liability reserve
 - This reserve is provided in some consolidated subsidiaries 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.
- (4) Hedge accounting method
 - (i) Hedge accounting method
 - Generally deferred hedge treatment is applied. However, the appropriation treatment is used for foreign exchange contracts where certain conditions are met.
 - (ii) Hedging instruments and hedged items
 - Hedging instrument: Foreign exchange contracts
 - Hedged items: debt and forecast transactions denominated in foreign currency
 - (iii) Hedging policy
 - The Company enters into foreign exchange contracts to mitigate exchange rate fluctuation risk. Hedged items are identified on an individual contract basis.
 - (iv) Method of hedge effectiveness evaluation
 - The effectiveness of each derivative transaction and hedged item is evaluated by assessing the amount of debt/credit, hedge transaction conditions and other factors on an individual basis.
- (5) Method and period of goodwill amortization
 - Goodwill is amortized over a reasonable period within 20 years using the straight-line method.
- (6) Scope of cash and equivalents in the consolidated cash flow statement
 - Cash and equivalents stated in the consolidated cash flow statements consist of cash on hand, demand deposits and short-term investments that are readily convertible to cash with low risk of price fluctuation and with original maturities of 3 months or less.
- (7) Other significant matters relating to preparation of consolidated financial statements
 - (i) Accounting for consumption taxes
 - Transactions subject to national and local consumption taxes are stated net of consumption taxes.
 - Nondeductible national and local consumption taxes related to assets are reported as long-term prepaid expense (included in Other in Investments and other assets) and amortized over 5 years.
 - (ii) Accounting for 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 open positions are reported as net sales.

Gain or loss on valuation is the difference between the market value and the exchange rate in the open 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 the 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” on the consolidated balance sheet.

(iii) Application of consolidated tax payment system

Consolidated tax payment system is applied

Changes in accounting policy

Effective January 1, 2018, the Company applied “Tentative Practical Solution on the Accounting for Cryptocurrencies under the Payment Services Act” (Practical Issues Task Force No. 38, March 14, 2018), and cryptocurrencies held by the Company and its consolidated subsidiaries are recorded in the consolidated balance sheet at the value based on their market prices as there is an active market, with the difference between the carrying amounts recorded in net sales. Cryptocurrencies received from depositors are recorded as cryptocurrency received in assets and liabilities and evaluated in the same way as those held by the Company and its consolidated subsidiaries, with no valuation gains or losses recorded.

The change in the accounting policy is applied retrospectively, and the consolidated financial statements for the year ended December 31, 2017 reflect the retrospective application.

As a result, cryptocurrency received of ¥29,873 million was recorded in current assets and current liabilities as of December 31, 2017, resulting in an increase of ¥29,873 million in current assets, total assets, current liabilities and total liabilities, respectively.

Changes in presentation method

Consolidated Profit and Loss Statement

Grants was presented separately in Non Operating Revenue for the year ended December 31, 2017, but it is included in Other for the year ended December 31, 2018 as it became immaterial. The consolidated financial statements for the year ended December 31, 2017 were reclassified to reflect this change in presentation.

As a result, ¥27 million of Grants presented in Non Operating Revenue in the consolidated statement of income for the year ended December 31, 2017 is included in Other for the year ended December 31, 2018.

Gain on sale of investment securities included in Other in Extraordinary Profit for the year ended December 31, 2017 is presented separately for the year ended December 31, 2018 as it became material. Also, Gain on sale of stock in subsidiaries and affiliates and Insurance income were presented separately for the year ended December 31, 2017, but they are included in Other for the year ended December 31, 2018 as they became immaterial. The consolidated financial statements for the year ended December 31, 2017 were reclassified to reflect these changes in presentation.

As a result, ¥39 million of Gain on sale of investment securities included in Other in Extraordinary Profit in the consolidated statement of income for the year ended December 31, 2017 is presented as Gain on sale of investment securities. Also ¥78 million reported as Gain on sale of stock in subsidiaries and affiliates and ¥266 million reported as Insurance income are included in Other for the year ended December 31, 2018.

Loss on valuation of investment securities and Information security measures expense were presented separately in Extraordinary Loss for the year ended December 31, 2017, but they are included in Other for the

year ended December 31, 2018 as they became immaterial. The consolidated financial statements for the year ended December 31, 2017 were reclassified to reflect this change in presentation.

As a result, ¥56 million of Loss on valuation of investment securities and ¥273 million of Information security measures expense presented in Extraordinary Loss in the consolidated statement of income for the year ended December 31, 2017 are included in Other.

Consolidated Statement of Cash Flows

Expenditure on origination of loans receivable included in Other in Cash Flow from Investing Activities in the consolidated statement of cash flows for the year ended December 31, 2017 is presented separately for the year ended December 31, 2018 as it became material. The consolidated financial statements for the year ended December 31, 2017 were reclassified to reflect this change in presentation.

As a result, ¥-953 million presented as Other in Cash Flow from Investing Activities in the consolidated statement of cash flows for the year ended December 31, 2017 is reclassified to Expenditure on origination of loans receivable of ¥-517 million and Other of ¥-436 million.

Segment information, etc.

Segment information

1. Overview of Reportable Segments

(1) Method of determining Reportable Segments

The Company's reportable segments are components of the Company for which separate financial information is available that are reviewed by the Board of Directors regularly to make decisions regarding the allocation of management resources and evaluate operating performance.

GMO Internet Group operates a comprehensive line up of Internet related services. The Group's operation is divided according to service type into five reportable segments: Internet Infrastructure, Online Advertising & Media, Internet Finance, Cryptocurrency, and Incubation.

The Internet Infrastructure segment provides services that comprise the business base for customers with online businesses. Services include domain, hosting & cloud, ecommerce solutions, security, 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 transaction service, foreign exchange margin trading service and cryptocurrency trading service. The Cryptocurrency segment engages in business related to cryptocurrency exchange and mining. The Incubation segment invests primarily in unlisted Internet related businesses.

(2) Changes in reportable segments

Following the entrance to the cryptocurrency business, the Group has reviewed its business management system and changed the segmentation of its reportable segments as follows from the year ended December 31, 2018.

Previously, our reportable segments consisted of "Internet Infrastructure," "Online Advertising & Media," "Internet Finance," "Mobile entertainment," and "Incubation." From the year ended December 31, 2018, our reportable segments consist of "Internet Infrastructure," "Online Advertising & Media," "Internet Finance," "Cryptocurrency," and "Incubation," and "Mobile Entertainment" is now included in "Other."

Segment information for the year ended December 31, 2017 is presented under the new segmentation.

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

Accounting policies for the reportable business segments are consistent with those described in the section "Significant items concerning consolidated financial statements." Reportable segment profit is based on operating profit. Inter-segment revenue and transfers are based on the same transaction conditions as those applied to external customers. Please note that the Company does not allocate assets and liabilities to reportable segments.

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

Previous Accounting Term (01.01.2017 – 12.31.2017)

(Unit: ¥millions)

	Reportable segment						Other (*1)	Adjustment (*2)	Total (*3)
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Crypto- currency	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	83,965	39,915	26,359	857	1,316	152,415	1,841	—	154,256
Internal transactions and transfers	659	4,163	23	—	—	4,847	141	-4,988	—
Total	84,625	44,079	26,382	857	1,316	157,262	1,983	-4,988	154,256
Segment profit/loss (-)	8,478	975	7,985	203	668	18,313	-740	69	17,642
Other items									
Depreciation expenses	3,734	436	745	48	0	4,966	125	—	5,091

(notes) 1. "Other" represents Mobile entertainment, Culture incubation and other businesses not included in reportable segments.

2. Segment profit adjustment (¥69 million) is an elimination of inter-segment transactions.

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

Current Accounting Term (01.01.2018 – 12.31.2018)

(Unit: ¥millions)

	Reportable segment						Other (*1)	Adjustment (*2)	Total (*3)
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Crypto- currency	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	100,139	42,382	30,745	8,216	2,313	183,797	1,380	—	185,177
Internal transactions and transfers	669	4,413	-27	30	—	5,086	147	-5,233	—
Total	100,808	46,795	30,718	8,246	2,313	188,883	1,527	-5,233	185,177
Segment profit/loss (-)	11,442	763	10,758	-1,362	1,221	22,823	-1,106	70	21,787
Other items									
Depreciation expenses	4,248	470	857	2,629	1	8,206	162	—	8,369

(notes) 1. "Other" represents Mobile entertainment, Culture incubation and other businesses not included in reportable segments.

2. Segment profit adjustment (¥70 million) is an elimination of inter-segment transactions.

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

Related Information

Previous 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 information section.

2. Data classified by geographic region

(1) Net Sales

This section is omitted because sales to external 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 external 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 (01.01.2018 – 12.31.2018)

1. Data classified by product/service

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

2. Data classified by geographic region

(1) Net Sales

This section is omitted because sales to external 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
9,384	856	10,240

3. Data classified by major customer

No external customer accounts for more than 10% of net sales 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 (01.01.2017 – 12.31.2017)

(Unit: ¥millions)

	Reportable segment						Other (Note)	Corporate/elimination	Total
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Cryptocurrency	Incubation	Total			
Impairment loss	691	48	—	—	—	740	192	—	932

(Note) "Other" relates to Mobile entertainment and Culture incubation business, etc.

Current Accounting Term (01.01.2018 – 12.31.2018)

(Unit: ¥millions)

	Reportable segment						Other (*2)	Corporate/elimination	Total
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Cryptocurrency	Incubation	Total			
Impairment loss(*1)	1,275	5	—	10,098	—	11,379	104	—	11,484

(Note) 1. ¥10,098 million of impairment loss is included in Loss on cryptocurrency mining business restructuring of Extraordinary losses.

2. "Other" relates to Mobile entertainment and Culture incubation business, etc.

Data regarding goodwill amortization and unamortized balance by reportable segment
Previous Accounting Term (01.01.2017 – 12.31.2017)

(Unit: ¥millions)

	Reportable segment						Other (Note)	Corporate/elimination	Total
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Cryptocurrency	Incubation	Total			
Amortization in current term	323	406	—	—	—	729	60	—	790
Balance at end of term	1,664	400	—	—	—	2,064	246	—	2,310

(Note) "Other" relates to Mobile entertainment and Culture incubation business, etc.

Current Accounting Term (01.01.2018 – 12.31.2018)

(Unit: ¥millions)

	Reportable segment						Other (Note)	Corporate/elimination	Total
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Cryptocurrency	Incubation	Total			
Amortization in current term	229	292	—	—	—	522	62	—	584
Balance at end of term	1,565	92	—	—	—	1,658	184	—	1,843

(Note) "Other" relates to Mobile entertainment and Culture incubation business, etc.

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

Per share information

Item	Previous Consolidated Fiscal Year (01.01.2017– 12.31.2017)	Consolidated Fiscal Year (01.01.2018 – 12.31.2018)
Shareholders' Equity Per Share	379.69	455.48
Net Profit per Share (- represents Loss)	69.44	-179.92
Net Profit per Share (diluted)	68.76	—

*Note: 1. Diluted Net Profit per share for the fiscal year ended December31,2018 is not presented because of a net loss per share.

2. Calculation of net profit/loss per share and net profit/loss per share (diluted) is based on the following:

Item	Previous Consolidated Fiscal Year (01.01.2017– 12.31.2017)	Consolidated Fiscal Year (01.01.2018 – 12.31.2018)
Net profit per share (- represents Loss)		
Profit attributable to owners of the parent (¥millions) (- represents loss)	8,030	-20,707
Amount not attributable to common stock (¥millions)	—	—
Net profit attributable to owners of the parent related to common stock (¥millions) (- represents loss)	8,030	-20,707
Average number of common shares outstanding during the period	115,798,346	115,096,887
Average number of treasury shares during the period	-154,208	-8,731
Average number of shares during the period	115,644,138	115,088,156
Net profit per share (diluted) (- represents Loss)		
Net profit adjustment attributable to owners of the parent (¥millions)	-78	—
(including adjustment for dilutive shares in consolidated subsidiaries) (¥millions)	(-78)	—
Increase in no. of common shares	—	—
Dilutive shares not included in the calculation of net profit per share (diluted) because of their anti-dilutive effect.	1. Consolidated Subsidiaries i. GMO AD Partners, Inc. Stock Options 5th Round Common stock: 64,000 shares ii. GMO Financial Holdings, Inc. Equity Warrants 2nd Round Common stock: 2,570,000 shares iii. GMO TECH, Inc. Equity Warrants 1st Round Common stock: 10,580 shares iv. GMO Pepabo, Inc Equity Warrants 2nd Round Common stock: 65,400 shares v. GMO Epsilon, Inc. 2010 Stock Options Common stock: 159 shares	1. Consolidated Subsidiaries i. GMO AD Partners, Inc. Stock Options 6th Round Common stock: 440,300 shares ii. GMO Financial Holdings, Inc. Equity Warrants 2nd Round Common stock: 2,415,000 shares iii. GMO TECH, Inc. Equity Warrants 1st Round Common stock: 9,940 shares iv. GMO Epsilon, Inc. 2010 Stock Options Common stock: 140 shares

Significant Subsequent Events

Acquisition of Treasury Stock

At a Board of Directors meeting convened on February 12, 2019, it was resolved to acquire treasury stock in accordance with the Company's Articles of Incorporation pursuant to Article 459-1 of the Japanese Companies Act. Details are as follows:

- (1) Reason for acquisition: To improve shareholder returns and capital efficiency
- (2) Class of shares to be acquired: Common stock of GMO Internet, Inc.
- (3) Total number of shares to be acquired: 2,500,000 shares (maximum) (2.17% of outstanding shares excluding treasury stock)
- (4) Total cost of share acquisition: JPY 3,110 million (maximum)
- (5) Acquisition period: From February 13, 2019 to December 30, 2019
- (6) Acquisition method: Market purchase