

Consolidated Financial Statement for the Fiscal Year Ended December 2006



Name of Listed Company: **GMO Internet Inc.**

February 22, 2007

Exchange Listing: Tokyo Stock Exchange, First Section

Stock Code: 9449

Location of Head Office: Tokyo

URL: <http://www.gmo.jp>

Representative: Masatoshi Kumagai, CEO and Representative Director

Contact: Masashi Yasuda, Managing Director

Contact Number: +81-3-5456-2555

Date of Corporate Resolution: February 22, 2007

Adoption of US Accounting Standards: No

1. Consolidated Business Performance in the Term Ended December 2006 (01.01.06 – 12.31.06)

(1) Consolidated Operating Results Note: All amounts have been rounded down to the nearest million yen.

	Sales		Operating Profit		Ordinary Profit	
	¥ millions	%	¥ millions	%	¥ millions	%
December 31, 2006	50,842	(36.6)	4,271	(-1.9)	3,992	(-2.7)
December 31, 2005	37,219	(58.0)	4,352	(55.2)	4,103	(46.3)

	Net Profit		Net Profit per Share	Net Profit per Share (diluted)	Shareholders' Equity Current Net Profit Ratio	Total Assets Ordinary Profit Ratio	Sales Ordinary Profit Ratio
	¥ millions	%	¥	¥	%	%	%
December 31, 2006	-12,099	(-)	-194.81	-	-87.7	3.4	7.9
December 31, 2005	3,258	(27.2)	52.68	52.39	22.0	7.1	11.0

- Notes:
- Equity in earnings or loss of investees: Year ended 12/2006: ¥0 million. Year Ended 12/2005: ¥0 million
 - Average number of shares in this term (consolidated)
Year ended 12/2006: 62,109,362 Year ended 12/ 2005: 61,429,016
 - Change in method of accounting treatment: No
 - Sales, operating profit, ordinary profit and current net profit percentages represent the percentage increase/decrease over the previous term.

(2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio	Shareholder's Equity Per Share
	¥ millions	¥ millions	%	¥
December 31, 2006	146,279	19,528	7.7	156.79
December 31, 2005	88,057	16,282	18.5	262.51

Note: Number of outstanding shares at the end of this term (consolidated)
Year ended 12/2006: 72,127,594 Year ended 12/2005: 61,940,632

(3) Consolidated Cash Flow

	Cash Flow from Operating Activities	Cash flow from Investing Activities	Cash flow from Financing Activities	Cash and Equivalents Closing Balance
	¥ millions	¥ millions	¥ millions	¥ millions
Year Ended 12/2006	4,544	-3,400	7,995	33,180
Year Ended 12/2005	-158	-22,733	34,748	23,202

(4) Matters concerning the scope of consolidation and application of equity method

Number of consolidated subsidiaries: 45 Number of unconsolidated subsidiaries to which the equity method is applied: 0
Number of consolidated subsidiaries to which the equity method is applied: 0

(5) Changes in the scope of consolidation or application of equity method

Consolidated Subsidiaries: New: 26 Excluded: 6 Equity Method Affiliates: New: 0 Excluded: 0

2. Consolidated Results Forecast for the Term Ending December 2007 (01.01.07 – 31.12.07)

	Sales	Operating Profit	Ordinary Profit	Current Net Profit
	¥ millions	¥ millions	¥ millions	¥ millions
Interim	28,000	2,500	2,100	700
Full Year	60,000	7,000	6,300	2,500

(Reference) Forecast net profit per share (full year): ¥34.46

Note: The above projections are based on information available at the time of release, this includes factors which are uncertain. Actual results may differ from the projected figures as a result of changes in business conditions.

The Corporate Group

GMO Internet Inc., (hereafter “the company”) is a corporate group consisting of the company and 45 consolidated subsidiaries. Under the corporate slogan *Internet for Everyone*, the group now operates in three segments, Internet Use Support (Internet Infrastructure), Internet Advertising Support (Internet Media) and Internet Finance.

The group had previously divided operations into the Internet Use Support (Internet Infrastructure) and Internet Advertising Support (Internet Media), however from this term it also includes the newly established finance segment. The following table shows the business areas included in each segment and the group companies operating in each business area.

Segment	Main Operations		Main Companies
Internet Use Support (Infrastructure)	Domain Registration	Domain registration service Internet number service	the company INTERNET Number Corporation paperboy&co.
	Web Hosting	Rental server service (web hosting service)	the company GMO Hosting & Security Inc. paperboy&co. Hosting & Security, INC. (formerly WEBKEEPERS, INC.) @YMC Corporation Mighty Server
	Website Construction and Support	Website construction and management support service. System consulting service	the company Grandsphere Co Ltd. GMO Blog Inc.
	Internet Security	Information security on the Internet. Authentication services for businesses and individuals.	GeoTrust Japan Inc. Certification Services Ltd. GlobalSign NV
	Credit Card Payment	Credit card billing service	GMO Payment Gateway Inc. Epsilon Inc.
	Access Provider	Internet Access Provider	the company
	E-commerce Support	Online shop construction consultants and ASP business	the company paperboy&co. MakeShop Inc.
	Corporate Communications	Communications services for corporate customers	the company
Internet Advertising Support (Media)	Internet Media Construction	Blogs, contextual advertising, mailing lists, opt-in mail services, wallpaper, bulletin boards and other Internet advertising media development and operation	GMO Media Holdings Inc. Tea Cup Communication Ltd. GMO Media Inc. GMO Ad Networks Inc. (formerly GMO Affiliate Inc.) BOM, Inc
	Internet Advertising Sales	Advertising sales, mainly Internet advertising media and recruitment advertisements	Magclick Inc. GMO San Planning Inc.
	JWord	JWord (Japanese keyword search tool)	the company Magclick Inc. JWord Inc.
	Online Games	Online Games - marketing and operation	NETCLUE Co Ltd. (Korea) GMO Games Inc. (formerly Net Clue Japan)
	Other	Provision of Internet research systems and administration and management of research panel	GMO Research Inc. (formerly GMO Research Institute Inc.)

Internet Finance	Loans and Credit	Loans and credit	GMO NetCard Inc. (formerly Orient Credit CoLtd) MIKI-SHOJI Co Ltd. Jaxon Finance Inc. Limited Liability Chukan Hojin ASA Holdings 4 ASA5 Merger Corporation Just Inc. Like Card Ltd. Sanyo Credit Ltd. East Japan Credit Ltd. Sunlife Ltd. Sanai Credit Ltd. Million Ltd. Alto Ltd. Japan Ltd. JC Ltd. Save Ltd.
	Internet Securities	Internet securities	GMO Internet Securities Inc.
	Venture Capital	Venture capital	GMO Venture Partners Inc. GMO Venture Partners Investment Limited Partnership Blog Business Fund Investment Limited Partnership

List of Consolidated Subsidiaries

Company Name	Percentage of Voting Rights and Equity Share Held	Category	Business Description
GMO Games Inc. (formerly Net Clue Japan, GMO Entertainment.) (*1)	100.0%	Consolidated Subsidiary	Online Games - marketing and operation
GMO Media Holdings Inc. (*2)	100.0%	Consolidated Subsidiary	Total strategy design for the media industry
GMO Venture Partners Inc. (*3)	100.0%	Consolidated Subsidiary	Venture capital
BOM, Inc. (*2)	100.0%	Consolidated Subsidiary	Listing Advertising
Grandsphere Co Ltd.	92.5%	Consolidated Subsidiary	System Consulting
GMO NetCard Inc. (formerly Orient Credit CoLtd)	91.1%	Consolidated Subsidiary	Loans and credit
GMO Internet Securities Inc. (*3)	89.1%	Consolidated Subsidiary	Internet securities
GMO Research Inc. (formerly GMO Research Institute Inc.) (*4)	78.2%	Consolidated Subsidiary	Research business
GMO Hosting & Security Inc.	63.2%	Consolidated Subsidiary	Web hosting business
JWord Inc.	62.7%	Consolidated Subsidiary	JWord (Japanese keyword search tool)

paperboy&co.	59.6%	Consolidated Subsidiary	Web hosting for individuals
MakeShop Inc. (*3)	58.7%	Consolidated Subsidiary	Online shop construction ASP
GMO Payment Gateway Inc.	52.3%	Consolidated Subsidiary	Provision and operation of credit card payment processing online network
Tea Cup Communication Ltd.	51.0%	Consolidated Subsidiary	Internet community
Magclick Inc.	43.0%	Consolidated Subsidiary	Internet Advertising Sales
NETCLUE Co Ltd. (Korea)	100.0% (100.0%)	Consolidated Subsidiary	Online Games - marketing and operation
@YMC Corporation	100% (100.0%)	Consolidated Subsidiary	Web hosting business
Epsilon Inc. (*3)	100% (100.0%)	Consolidated Subsidiary	Provision and operation of credit card payment processing online network.
Mighty Server (*3)	100% (100.0%)	Consolidated Subsidiary	Web hosting business
GMO Ad Networks Inc. (Formerly GMO Affiliate Inc.) (*5)	100.0% (100.0%)	Consolidated Subsidiary	RSS/ Atom feed management system provision and community media construction support
GMO BLOG Inc.	100% (100.0%)	Consolidated Subsidiary	Blog system administration and management
GeoTrust Japan Inc.	88.2% (88.2%)	Consolidated Subsidiary	Information security on the Internet. Authentication services for businesses and individuals.
Certification Services Ltd. (England) (*6)	100% (100.0%)	Consolidated Subsidiary	Information security on the Internet. Authentication services for businesses and individuals.
GlobalSign NV (Belgium) (*6)	100% (100.0%)	Consolidated Subsidiary	Information security on the Internet. Authentication services for businesses and individuals.
GMO Media Inc.	81.6% (81.6%)	Consolidated Subsidiary	Development, provision and management of mail media, desktop wallpaper, information and advertising distribution system.
GMO San Planning Inc.	75.6% (75.6%)	Consolidated Subsidiary	Advertising agency
Hosting & Security, INC	51.2% (51.2%)	Consolidated Subsidiary	Web hosting business
INTERNET Number Corporation	69.6% (69.6%)	Consolidated Subsidiary	Internet number service
MIKI-SHOJI Co. Ltd. (*6)	100% (100.0%)	Consolidated Subsidiary	Loans and credit
Jaxon Finance Inc.	100% (100.0%)	Consolidated Subsidiary	Loans and credit
Limited Liability Chukan Hojin ASA Holdings 4 (*6)	100% (100.0%)	Consolidated Subsidiary	Loans and credit
ASA5 Merger Corporation (*6)	100% (100.0%)	Consolidated Subsidiary	Loans and credit
Just Inc. (*6)	100% (100.0%)	Consolidated Subsidiary	Loans and credit
Like Card Ltd. (*6)	100% (100.0%)	Consolidated Subsidiary	Loans and credit
Sanyo Credit Ltd. (*6)	100% (100.0%)	Consolidated Subsidiary	Loans and credit

East Japan Credit Ltd. (*6)	100% (100.0%)	Consolidated Subsidiary	Loans and credit
Sunlife Ltd. (*6)	100% (100.0%)	Consolidated Subsidiary	Loans and credit
Sanai Credit Ltd. (*6)	100% (100.0%)	Consolidated Subsidiary	Loans and credit
Million Ltd. (*6)	100% (100.0%)	Consolidated Subsidiary	Loans and credit
Alto Ltd. (*6)	100% (100.0%)	Consolidated Subsidiary	Loans and credit
Japan Ltd. (*6)	100% (100.0%)	Consolidated Subsidiary	Loans and credit
JC Ltd. (*6)	100% (100.0%)	Consolidated Subsidiary	Loans and credit
Save Ltd. (*6)	100% (100.0%)	Consolidated Subsidiary	Loans and credit
GMO Venture Partners Investment Limited Partnership	31.7% (31.7%)	Consolidated Subsidiary	Venture capital
Blog Business Fund Investment Limited Partnership	9.9% (9.9%)	Consolidated Subsidiary	Venture capital

(*Notes)

*1.Net Clue Japan Inc. and GMO Entertainment Inc. merged on April 1, 2006. Net Clue Japan was the surviving organization and at the same time the company name was changed to GMO Games.

*2.GMO Media Holdings Inc. was established on April 1, 2006 and BOM, Inc was established on October 1, 2006.

*3.As of the current consolidated fiscal year, GMO Internet Securities Inc., MakeShop Inc., Epsilon Inc., Mighty Server Inc. and GMO Venture Partners have become consolidated subsidiaries due to their increased significance to the consolidation.

*4.GMO Research Institute Inc. and GMO Research Inc. were merged on September 1, 2006. GMO Research Inc. was the surviving organization and the company name was changed to GMO Research Inc. at the time of merger.

*5.GMO Affiliate Inc. and GMO Ad Networks Inc. were merged on April 1, 2006. GMO Research Inc. was the surviving organization and at the same time the company name was changed to GMO Ad Networks Inc.

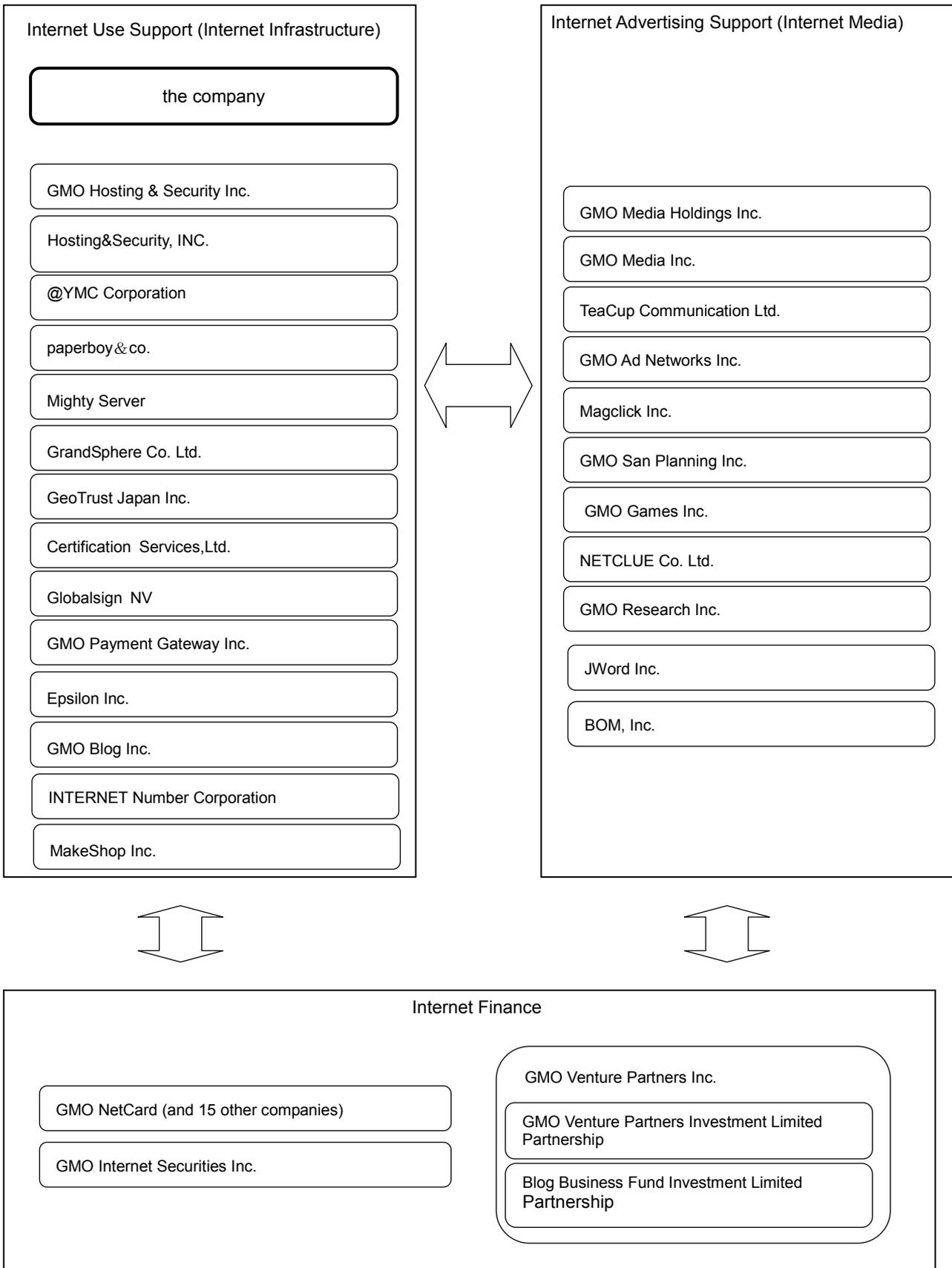
*6.Certification Services Ltd, MIKI SHOJI Co. Ltd, Jaxon Finance Inc, Limited Liability Chukan Hojin ASA Holdings 4 Ltd, ASA5 Merger Corporation, Just Inc, Like Card Ltd, Sanyo Credit Ltd, East Japan Credit Ltd, Sunlife Ltd, Sanai Credit Ltd, Million Ltd, Alto Ltd, Japan Ltd, JC Ltd. and Save Ltd. became consolidated subsidiaries in the current consolidated accounting year through acquisition of stock.

*7.Payment One Inc. became a dormant company following management integration through a transfer of its business to GMO Payment Gateway Inc. It is currently being liquidated.

*8. The company merged with the three consolidated subsidiaries, GMO Communications, TELECOM ONLINE Inc. and Solis Inc. on January 1, 2006. The company was the surviving organization.

*9.In the column "Percentage of voting rights or equity share held" figures in parentheses denote indirect ownership.

[Business Diagram] The organization is structured as follows:



Consolidated Subsidiary

Management Policy

1. Basic Management Policy

Under the corporate slogan *Internet for Everyone*, and with a strong entrepreneurial ideology, the company group's management resources are focused on the provision of Internet infrastructure and service infrastructure. The organic combination of our Internet Use Support (Internet Infrastructure), Internet Advertising Support (Internet Media) and Internet Finance business segments allows us to continue building a group in which each of the three areas work in synergy, striving to be an enterprise that makes a contribution to society and its people through the creation of Internet culture and development of the industry.

Management Philosophy

Our staff are committed to the following principles.

Our Fundamental Principle: Internet for Everyone

1) Our Dream

- To be overwhelmingly number one in the Internet industry. (to have the No.1 market share or to be the sole player in the market)

2) Our Vision

- Throughout the ongoing digital information revolution we will continue to focus our management resources on providing Internet services that inspire enthusiasm in our customers and make them smile. This will result in substantial profits.

3) Our Philosophy

- We believe in creating an Internet culture and industry that inspires enthusiasm in our customers and makes them smile.

2. Basic Distribution of Profits Policy

To further reinforce our commitment to returning profits to shareholders we have adopted a basic policy that aims to distribute 33% of consolidated net profit through dividend payouts.

3. Reasons for Lowering the Unit of Investment and Related Policy

The company lowered the number of shares per unit from 500 to 100 in February 2004 in order to increase the liquidity of stock and expand the range of investors. We also executed a 2-for-1 stock split in August 2004. The company will continue to take into consideration business performance and market demands and will undertake to carefully investigate cost and effect when considering any future changes to the unit of investment.

4. Management Objectives

The group considers the ratio of sales to ordinary profit to be a gauge of profitability and an important management indicator. Currently, we have not announced or established any short term objectives however we are continuously aiming for further improvement.

5. Medium to Long-Term Business Strategies.

The group company offers a wide range of services including access, domain registration, web hosting, website construction support, security, e-commerce support, online payment processing and Internet advertising. It operates under the marketing slogan *Becoming the Internet Department of Japan*. We are the only integrated business group that provides in one place, the comprehensive range of Internet services required by corporate clients to attract more customers through the Internet. Furthermore, we boast a powerful sales structure and 550 000 corporate clients, predominantly in our web hosting and domain registration businesses. In the Internet media business we have over 22 million customers, chiefly in our blog and JWord services. We hold the fifth-highest ranking in Japan (Nielson/NetRatings December, 2006)

The Internet Finance segment, established in the previous fiscal year, is centered around the loans and credit and securities businesses. It benefits from the group's corporate and individual customer base as well as its technical strengths, marketing power and group synergy.

We believe we will continue to achieve overwhelming growth through careful selection and focus and by taking full advantage of the synergy throughout the three areas of business, Internet Use Support (Internet Infrastructure), Internet Advertising Support (Internet Media) and Internet Finance.

6. Company Challenges

(1) Fostering group synergy

The company group has greatly expanded its business operations through our M&A strategy and the resulting acquisition of management resources. We believe that one of the most significant issues facing our company henceforth will be how to efficiently use those management resources.

We will continue to strive to improve group management efficiency and take full advantage of our management resources while cultivating synergy between business segments.

(2) Strengthening our selling power through the diversification of sales channels.

Group marketing is conducted with a focus on "pull-type" marketing (a method of attracting customers executed primarily through the Internet) and we benefit from the extensive knowledge we have accumulated in this area. We plan to continue employing "pull-type" marketing as our primary marketing method while embarking on initiatives that include expanding facilities and staff at our call centers and further strengthening our sales system targeting corporate customers.

(3) Improving customer satisfaction.

Given that competition in the Internet sector will increase in the future, we believe it is imperative to address the issue of improving customer satisfaction in order to encourage customers to continue using our services. Throughout the entire group we strive to improve customer satisfaction by improving the quality of services, strengthening customer support structures and promoting communication with customers. We aim to inspire enthusiasm in our customers and to make them smile.

7. Items concerning the parent company etc.

The company has no parent company.

Operating Results and Financial Condition

1. Operating Results

We report the following information in regard to our business performance in the current consolidated interim accounting period (January 1, 2006 to December 31, 2006)

(1) General Conditions

During the first half of the period under review, the Japanese economy exhibited positive signs underpinned by a recovery of capital investment in the corporate sector and rising share prices. In the Internet market, the arena in which the company operates, the number of broadband service users reached 30.24 million at the end of September 2006. The Internet is now firmly established and Internet use continues to grow¹.

In this environment, as the Internet and Internet support needs of small and medium sized businesses increase we expect our customer base to expand considerably. In order to aggregate management resources, on January 1, 2006, the company merged with GMO Communications Inc, TELECOM Online Inc, and Solis Inc, with GMO Internet Inc. as the surviving corporation. In the Internet security business, Certification Services Ltd was made a subsidiary with the objective of strengthening sales.

The Internet Advertising Support (Media) segment was ranked fifth in the Nielsen/NetRatings monthly survey of user numbers with 22.19 million users.

In the Internet Finance segment, a business partnership was established with eBANK in order to build customer base. Business performance in the current consolidated fiscal year has been influenced by an extraordinary loss of 8,217,497,000 yen due to the establishment of an excess interest repayment fund in accordance with recommendations in the JICPA² report, *Auditing and Handling of Reserves for Losses Incurred on Excess Interest Repayments in the Consumer Finance Industry*, released on October 13, 2006. Also in this consolidated fiscal year, shrinkage of 4,751,331,000 yen was recorded.

As a result, in the current fiscal year, the group recorded sales of 50,842,428,000 yen (36.6% year-over-year increase), an operating profit of 4,271,614,000 yen (1.9% year-over-year decrease), an ordinary profit of 3,992,136,000 yen (2.7% year-over-year decrease) and a net profit of 12,099,776,000 yen (year ago net profit was 3,258,953,000).

Segment Report

Internet Use Support (Infrastructure)

The Internet Use Support (Internet infrastructure) segment recorded sales of 16,860,212,000 yen (5.0% year-over-year increase) and an operating profit of 2,691,322,000 yen (5.5% year-over-year increase). There is strong growth in earnings of our main businesses in this segment, the domain registration, web hosting, payment processing and security businesses.

Internet Advertising Support (Media)

The Internet Advertising Support (Internet Media) segment recorded sales of 12,293,670,000 yen (2.4% year-over-year increase) and an operating profit of 537,430,000 yen (a loss of 229,073,000 yen was recorded in the previous year). Profit performance has improved dramatically as a result of increased efficiency in the JWord business and a business partnership with Overture KK.

Internet Finance

As a result of factors including the NetCard Inc. (formerly Orient Credit CoLtd) addition to the consolidation, sales of 22,102,434,000 yen were recorded in the Internet Finance segment. However, an operating profit of 877,086,000 yen was recorded due to expenses related to the launch of the Internet securities business and the establishment of an excess interest repayment fund from the current period in accordance with the JICPA report, *Auditing and Handling of Reserves for Losses Incurred on Excess Interest Repayments in the Consumer Finance Industry*, released on October 13, 2006.

¹ *Changes in the Number of Broadband Subscribers*, Ministry of Public Management, Home Affairs, Posts and Communications, September, 2006.)

² Japan Institute of Certified Public Accountants

2. Financial Condition

(1) Assets, liabilities and shareholders' equity in the current consolidated fiscal year

The following is a comparison of the state of assets, liabilities and shareholders' equity on December 31, 2006 and December 31, 2005.

In current assets, operating loans increased to 36,777,962,000 yen and in fixed assets goodwill³ increased by 3,432,146,000 yen. This is chiefly due to capital partnerships in companies including MIKI SHOJI Co. Ltd in the loans and credit business. Under liabilities, short term debt increased to 48,035,767,000 yen and current portion of long term debt increased to 3,934,630,000 yen. This is also predominantly due to a capital partnership in the loans and credit business as well as convertible bonds with equity warrants issued in August 2005 totaling 31 billion yen.

(2) Cash Flow

Regarding consolidated cash and cash equivalents (hereafter "the funds"), despite a corporate tax payment, cash flow from operating activities was 4,544,773,000 yen. Spending under cash flow from investing activities totaled 3,400,688,000 yen largely as a result of acquisitions including investments in securities and subsidiary stock. Despite factors including the redemption of bonds and the payment of dividends, cash flow from financing activities increased by 7,995,309,000 yen due to activities including the issuing of stock. As a result of the above factors, in the current consolidated fiscal year, funds totaled 33,180,245,000 yen, an increase of 9,997,363,000 yen over the previous consolidated fiscal year.

The state of each cash flow and the factors contributing to that state in the current consolidated accounting term is as follows.

Under cash flow from operating activities, a net profit before adjustment for taxes etc. of 8,914,384,000 yen was recorded and despite a payment of 3,118,809,000 yen in corporate taxes etc., the collection of operating loans resulted in a 4,544,773,000 yen increase (158,357,000 yen year-over-year decrease) in the closing balance.

Cash flow from investing activities decreased by 3,400,688,000 yen (22,733,175 yen year-over-year decrease). While income of 3,161,591,000 yen was received from the sale of investments in securities, the decrease was primarily due to expenditure including 1,767,220,000 yen in acquisitions of investments in securities and 1,997,012,000 yen in acquisitions of intangible fixed assets

Cash flow from financing activities increased by 7,995,309,000 yen (34,748,770,000 yen year-over-year increase). Although there was expenditure of 32,150,000,000 yen on the redemption of bonds and 62,808,015,000 yen in long and short term debt repayments, income of 89,863,604,000 yen was received from long and short term loans and 7,626,208,000 from the issuing of stock.

	End of FY 2004	End of FY 2005	End of FY 2006
Shareholders' Equity Ratio (%)	47.9	18.5	7.7
Market Value of Shareholders' Equity (%)	817.3	388.8	37.8
No. of Years for Debt Redemption	0.9	—	18.5
Interest Coverage Ratio	117.7	—	21.8

Notes: 1. All financial indicators are calculated based on consolidated figures.

Definitions: Market value of shareholders' equity: The aggregate market value of stock divided by total assets.

No. of years for debt redemption: Interest-bearing liabilities divided by operating cash flow

Interest coverage ratio: Operating cash flow divided by interest payments

2. The aggregate market value of stock is the number of outstanding shares at the end of term minus the number of treasury shares multiplied by the end-of-term stock price.
3. Interest-bearing liabilities include all liabilities on the consolidated balance sheet on which interest is paid.
4. Operating cash flow and interest repayments are the cash flow from operating activities and

³ Goodwill now includes Up until the last term these were separate items.

interest paid figures in the consolidated cash flow statement.

3. Business Risks

(1) Competition

The group provides competitive services that respond to the needs of users in our Internet Use Support (Infrastructure) business segment, (predominantly in our provider, web hosting and domain businesses) and in our Internet Advertising Support (Media) segment. We believe our predominance in the industry is a result of our competitive business development. However, there is a possibility of increasing competition from telecommunications companies, electric companies and existing independent companies in individual business areas. It is also possible that a new group with the same business structure will emerge as a result of business partnerships and mergers. If in the future, competition for gaining new customers intensifies and revenue declines, the necessity of reducing our fees may arise along with an increase in expenses such as capital expenditure and advertising. This could potentially have a serious impact on our business results.

(2) Technological Innovation

The progress of technological innovations in Internet-related technology is rapid and subsequently, industry standards and customer needs are constantly changing. As a result new services, new technology and new products are constantly appearing. If we are slow in taking up these new technologies, we risk the services and equipment we provide becoming stale resulting in reduced competitiveness and potentially serious consequences. We believe it is essential to concentrate our efforts on improving the ability of both our systems and our staff as well as to pay adequate attention to developments, trends and new technologies.

(3) Uncollected Debt

The majority of the Internet Use Support (Internet Infrastructure) trade accounts receivable is made up of small accounts less than 10,000 yen a month. These accounts are mostly held by individual users, SOHOs and small and medium-sized businesses. For customer convenience a wide range of payment methods are available including, bank transfer, payment at a post office or convenience store and payment by credit card. However, if the customer does not actively transfer the money then there is a delay in recovery of funds.

Regarding non-collection of receivables, the company has established a reserve for the entire amount of receivables in arrears that are over one year past the point where they are considered uncollected receivables. We also have a reserve for receivables that are in arrears for less than one year past becoming uncollected receivables. This is calculated based on past bad debt. Receivables over two years past becoming uncollected debt that are not expected to be recovered are written off through the appropriation of bad debt reserves.

The company makes every effort possible to collect receivables by making demands via telephone, post, e-mail etc. As of December 31, 2006 the allowance for doubtful debts was 615 million yen. An increase in the number of accounts in arrears, or the amount in arrears caused by economic conditions or bankruptcies has the potential to impact on our business performance.

(4) Legal Regulations

The company group is subject to the following legal regulations. However, as Internet use continues to spread, there is a possibility that the group will be subject to further regulations as a result of new laws aimed at Internet users and related businesses, clarification of the application of existing laws or voluntary restraints that may be required of the industry.

(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 growth in telecommunications while at the same time protecting the interests and convenience of the public. As a designated telecommunications carrier in the Internet industry, the company is subject to laws including those regarding censorship restrictions, the protection of confidential communications, telecommunications equipment and the connection of telecommunications equipment.

(b) Laws Regulating the Adult Entertainment Business

These laws were enacted to regulate the business hours, locations etc. of adult entertainment and

related businesses with the aim of maintaining public morals and a healthy environment as well as preventing acts with the potential to impede the sound development of the young people. The laws restrict the entry of minors into such places of business. In addition they seek to ensure fair and reasonable conduct in the adult entertainment business. The law seeks to directly control consumers in this industry. However this law also applies to the server space the company as an Internet connection service, provides to users. Connection companies have an obligation to manage control of their own servers (effective April 1, 1999).

The company has an agreement with registered website construction agencies concerning websites published by customers. The agreement explicitly states that responsibility for web content lies with the author of the site. In addition to this we have made every effort to widely publicize the laws and regulations and to check the contents of websites. We have also independently established our own regulations regarding illegal and harmful information on the Internet. However, there is no guarantee that these measures will be sufficient to prevent the possibility of a user, other related person or governing body lodging a claim or demanding damages in relation to a site published by one of our customers.

(c) Laws Concerning 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 sound development of an advanced information-oriented society. It prohibits direct unauthorized computer access.

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 to computers.

(d) Laws concerning Limitation of Damage Claims against Telecommunications Service Providers and Disclosure of Sender Information

The aim of this law is to ensure the proper transmission of information in specific forms of telecommunication in light of the increasing dissemination of information over the Internet. The law provides the right to demand the disclosure of sender information and limits damages claims against telecommunications service providers. The company is subject to these laws as a telecommunications carrier. Although the scope of company responsibility is restricted under these laws it does affect the activities of senders of information. When the company is dealing with issues that fall under this law we are required to make critical judgments which, if not appropriate, could result in us facing claims or damages from users or other related people and organizations.

(e) Specified Commercial Transaction Laws

The Specified Commercial Transaction laws were enacted to protect the interests of the purchaser by ensuring that specific commercial transactions (e.g. door-to-door sales, mail-order sales) are fair and just in order 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 a number of specific transactions. One of these regulations imposes restraints on the method of displaying mail-order sales advertisements. This includes electronic advertisements. The company e-mail advertisement business is subject to the above restraints and it is possible that other operations could be affected in the future.

(f) Laws concerning E-Mail Transmission

These laws aim to cultivate a positive environment for e-mail users and were enacted in light of the necessity that has arisen to prevent problems associated with commercial businesses sending advertising e-mail in bulk. The law requires the sender's contact details to be contained within the email and prohibits the sending of e-mail to users who have indicated they do not wish to receive it.

The company's e-mail advertising service is subject to this law and its methods of operation may be restricted.

(g) Laws Protecting Personal Information

In an advanced information communications society where the use of personal information is increasing, this law aims to consider the role of personal information and to protect personal rights and interests. Under this law, companies that handle personal information are subject to restrictions such as those

regarding the use of personal information and its provision to a third party. They are also under obligation to ensure responsible management, adequate guarantees and reasonable methods of acquisition. In accordance with these laws, the company is required to establish a procedure for adequately explaining and acquiring user permission when using personal information or passing it on to a third party. It is also required to take steps to ensure the responsible management of such information. The obligations above are based on the supplementary regulations that came into effect on April 1, 2005.

(5) The Possibility of Litigation

The Internet provides an accessible information retrieval and electronic mail system, and an enormous variety of information, in almost every field.

The company group strives to provide reliable services and systems. We have an uninterruptible power supply system, back up systems etc. that allow us to provide management, maintenance and customer support services 24 hours a day 365 days a year in order to deal with any problems that may arise. However if a problem occurs that can not be dealt with through the group company crisis management system, damage may be incurred by users of the company group services. Although our service agreement contract contains an exemption clause, this kind of incident has the potential to severely impact on the company and its business performance. While no such lawsuit or other appeal has been brought against the company to date there is a possibility of such an occurrence in the future.

About the Internet Finance Segment

Loans and Credit Business

(6) Legal regulations

The laws pertaining to the loans and credit business are the money lending control law and the capital subscription law. These laws regulate all aspects of the business.

(i) Money lending control law business controls

GMO NetCard Inc. (formerly Orient Credit Co Ltd) and each company operating in the consumer finance industry is required by paragraph 3 of the money lending control law to obtain money lending business registration. The same law governs all aspects of the business (restrictions to prevent excessive borrowing, conditions imposed on the advertising of loans, the prohibition of misleading advertising, the provision of documents, receipts and identification, bookkeeping, limitations on collection methods, the return of documents evidencing a claim etc.) and any breach of regulations may result in regulatory or legal action (suspension of all or part of the business, cancellation of business registration etc.).

The group loans and credit business performance could be negatively impacted in the event of legal reforms or judicial rulings that lead to changes in business regulations that force restrictions or changes in the business.

(ii) Planned reforms to capital subscription laws

The maximum interest rate on loans in the loans and credit business is regulated by the capital subscriptions law.

On November 30, 2006, a bill for partial amendments to the money lending control laws was passed by the house of representatives that would enact substantive regulations to prevent excess borrowing, reduced the maximum interest rate (29.2%) under the capital subscription law by eliminating the interest rate "gray zone" and abolish the constructive repayment (payment regarded as being valid) requirement under paragraph 43 of the money lending law. The bill is now being deliberated by the house of councilors. The maximum interest rate under the capital subscription law applies to interest on all loan products currently offered by GMO NetCard Inc. (formerly Orient Credit Co Ltd) If maximum interest rates under the capital subscription laws are reduced to a level that is lower than the current interest rate on GMO NetCard Inc. (formerly Orient Credit CoLtd) loans or laws to prevent excess borrowing are introduced the group's business performance may be affected.

(iii) Addition to excess interest repayment fund

In addition to the maximum interest rate regulations, according to paragraph 1, article 1 of the Interest Rate Limitation law, the interest rates on consumer loan contracts that exceed the limitations imposed by law are invalid (an amount calculated at an annual interest rate of 20% for a principal of less than 100,000 yen, 18% for a principal of 100,000 yen or more and 15% for a principal of 1,000,000 yen or more). However, paragraph 1 article 2 of the law states that if the borrower has voluntarily paid excess interest,

they may not seek repayment. Paragraph 43 of the money lending control law states that if the document required by law is delivered when the contract begins, then the borrower has voluntarily paid excess interest and it shall be deemed a valid interest payment irrespective of paragraph 1 article 1 of the Interest Rate Limitation law.

The interest on loan products (excluding some products) currently offered by GMO NetCard Inc. (formerly Orient Credit CoLtd) includes interest in excess of the rate allowable under these regulations. In some cases, customers may refuse to pay excess interest or demand repayment of excess interest they have already paid in which case GMO NetCard Inc. (formerly Orient Credit CoLtd), may discharge the loan or repay the excess interest.

Companies operating in the consumer finance industry, including GMO NetCard (formerly Orient Credit CoLtd.) risk facing multiple law suits demanding excess interest repayment on the grounds that they have not complied with the requirements defined in paragraph 43 of the money lending control law. Several of these lawsuits have already occurred. According to a Supreme Court ruling on January 13, 2006, if a loan contract on a loan that includes excess interest, contains an acceleration clause that can be evoked in the event of a late repayment, that clause is invalid.

Article 43 of the money lending control laws that states these payments are voluntary was rejected unless it could be proved that the debtor did not misunderstand that the clause was invalid.

As a result of this decision, revisions to the enforcement regulations of the money lending control law were introduced. As of April 11 2006, the contract date cannot be substituted for the contract number on contract documents specified under Article 18 of the money lending control laws. Further revisions came into effect on July 1, 2006 stating that when a loan contract requires a debtor to pay outstanding principal and interest in the event of a default, lenders are required to state in the contract that such a clause is only valid within the application of the Interest Limitation Law.

GMO NetCard Inc. (formerly Orient Credit CoLtd) had already made provisions for the money lending control law regulations enacted on April 11, 2006, however it is also necessary to take suitable action in response to the regulations enacted on July 1, 2006.

As a result of these circumstances the number of cases of refusal to pay excess interest and demand for repayment of excess interest is increasing yearly. In the future, it is possible that there may be large increase in the number of customers refusing to pay or demanding repayment of excess interest and this could impact on the business performance of the group.

(7) The Japan Institute of Certified Public Accounts Publication

In light of the increasing number of customers demanding repayment of excess interest, we have established an appropriate excess interest repayment risk reserve (excess interest repayment fund) based on the October 2006 report, *Auditing and Handling of Reserves for Losses Incurred on Excess Interest Repayments in the Consumer Finance Industry* published by the JICPA.

Customer demands for excess interest repayment could impact on the group's business performance.

(8) Fund Procurement

(i) Fund Procurement

The funds required to carry out the regular business activities of GMO NetCard Inc. (formerly Orient Credit CoLtd) and to service debt are primarily raised through regular business activities as well as from the capital markets through the issuing of bonds and asset-backed securities and from bank and non-bank loans. Recently GMO NetCard Inc. (formerly Orient Credit CoLtd) has increased procurement of funds through indirect financing and has been gradually diversifying methods of financing. However, there is no guarantee that the GMO NetCard Inc. (formerly Orient Credit CoLtd) lending policy will not change as a result of realignments in the Japanese financial industry or other factors. There is also no guarantee that capital markets can be relied on as a source of fund procurement in the future.

In light of these factors, an increase in interest paid, or decrease in ability to raise funds in the capital market could affect the business performance of the group.

(ii) Market Interest Rates

Procurement costs are influenced by changes in the market environment and other factors. However, regardless of changes in market interest rates, the GMO NetCard Inc. (formerly Orient Credit CoLtd) maximum loan interest rate is limited to 29.2% by the capital subscription law.

In order to minimize the risk of interest rate fluctuations, including the cap on interest rates, we endeavor to reduce the influence of interest rate fluctuations. However, in the future rising interest rates could impact on the business performance of the group.

(9) Allowance for doubtful debts

In the current fiscal year, consumer loans formed the majority of the GMO NetCard Inc. (formerly Orient Credit CoLtd) total assets. The current status of loans is evaluated and the estimated required amount is reserved in an allowance for doubtful debts.

In the future, changes in the economic climate, market environment or social structure, or reforms to the bankruptcy law, specified conciliation law, civic rehabilitation law or the judicial scriveners law, could lead to an increase in individuals seeking legal protection (including GMO NetCard Inc. (formerly Orient Credit CoLtd) customers) resulting in a delay in payment plans and an increase in uncollectible debt. In this case, the allowance for doubtful debts may be increased impacting on the group's business performance.

(10) Heavy debtors

In recent years, as a result of the economic climate in Japan and consumer relief reforms in the legal system, (establishment of the specified conciliation law and the civic rehabilitation law and reforms to the judicial scriveners law), the increasing number of heavy debtors and increasing numbers of individuals seeking protection under personal bankruptcy laws has become a social issue.

In response to this situation, in January 1997, the five major consumer finance companies established a consumer finance industry association that provides education and counseling to consumers.

GMO NetCard Inc. (formerly Orient Credit CoLtd) evaluates a customers ability to pay repay debt based on Credit Information Center data and it's own credit check system, at the same time it periodically reviews existing loans and revises credit limits. In this way we endeavor to evade the risk of excess lending, prevent a further increase in the number of heavy debtors, and curb the occurrence of uncollectible debt. We are providing for predicted future risk by reserving an allowance for doubtful debts that furnishes expected requirements based on factors including the condition of operating loans.

However, future economic climate or consolidation of the legal system that causes a sudden deterioration in loan assets or an increase in the number of customers who are required as a result of legal intervention to undertake adjustment of debt or file for personal bankruptcy, could cause an increase in bad debt and thus impact on the business performance of the group.

(11) Business Finance

GMO NetCard Inc. provides secured loans to companies in the industry. The value of the security is dependant on the credit status of the borrower in order to protect the loans. Possible future risks that could impact on the business results of the group include legal or economic reforms and borrowers engaging in some kind of illegal act that results in their business affairs being regulated.

(12) Deregulation

Currently, the regulations controlling the consumer finance industry are being strictly enforced after the January 2004 revisions to the money lending business law and the April 2005 revision to the money lending business rules of practice. For this reason it is difficult to imagine entry into the business from outside the industry having any major impact on the business performance of the group.

However, in the future if regulation of the industry is relaxed, there is the possibility that renewed competitiveness may occur in the consumer finance industry and this could have an impact on the group's business performance.

About the Internet Securities Business

(13) Legal regulations

The conduct of the group Internet securities business, operated by GMO Internet Securities Inc, is governed by laws including the Securities and Exchange laws and the laws of relevant stock exchanges as well as the various regulations and conventions of the Japan Securities Dealers Association and other self-regulatory institutions. The conduct of this business may be influenced by interpretation of or changes and additions to the relevant laws regulations and conventions.

In particular the Securities and Exchange law and the orders concerning the capital requirement of securities companies seek to maintain a fixed capital-asset ratio in securities companies. If the GMO Internet Securities Inc. capital-assets ratio declines due to an increase in risk-assets (including an increase in credit transactions associated with an increase in loans) or a deterioration of financial condition, the company may be required to change it's business methods or suspend all or part of it's business. Furthermore it's securities business registration may be cancelled. For these reasons a decline

in the capital-assets ratio could potentially impact the concerned business and the operating results and financial condition of the group as a whole.

(14) About the Business Environment

Consignment fees are a major source of income in this business and therefore the business is influenced by the securities market environment. The securities market is subject to the influences of economic climate, global market trends, political climate and investor sentiment. In a sluggish market, the operating results of this business could potentially be negatively impacted by a decrease in investment will in existing and potential customers accompanied by a drop in trading and trading value. The online securities transaction services business is highly competitive and a large number of companies have entered the field including existing securities firms. The company's main source of income is brokerage commissions and fees. It is therefore possible that the company's ability to attract customers and it's operating results may be negatively affected if market deregulation and the liberalization of stock brokerage commissions and fees leads to intensified price competition.

In recent years, there has been a rising trend in this business for revenue to come from margin transactions. Because of this, any sudden fluctuation in market prices or rise in interest rates that causes difficulty in collecting securities transaction loans from customers could adversely affect the operating results of this business. Margin FX transactions are also subject to the same risk as credit transactions.

(15) System Failure

GMO Internet Securities Inc. is always strengthening its system through such measures as improving and reinforcing hardware and strengthening the system application management structure to provide for increased trading activity in the securities market. System failure as a result of increased system load could result in decreased confidence in the company or the group as a whole. Customer alienation may negatively impact on the company or the entire group operating results and furthermore it could result in disciplinary action by regulatory authorities.

3. Results Forecast for the Fiscal Year Ending December 2007

The current business results projection is as follows. The business environment surrounding the GMO Internet Group is subject to significant change in short periods of time. As such, actual results may vary from those projected here.

Consolidated Results Forecast (01.01.07 – 12.31.07)

	Fiscal Year Ending December 2007	Percentage Increase/Decrease (Year-over-Year)	Fiscal Year Ended December 2006
	¥ millions	%	¥ millions
Sales	60,000	18.0	50,842
Operating Profit	7,000	63.9	4,271
Ordinary Profit	6,300	57.8	3,992
Current Net Profit	2,500	—	-12,099

Non-Consolidated Results Forecast (01.01.07 – 12.31.07)

	Fiscal Year Ending December 2007	Percentage Increase/Decrease (Year-over-Year)	Fiscal Year Ended December 2006
	¥ millions	%	¥ millions
Sales	13,000	7.1	12,133
Operating Profit	1,230	3.5	1,188
Ordinary Profit	1,580	-15.4	1,867
Current Net Profit	1,250	—	-3,891

(Reference)

Table: Quarterly Change by Segment

I Sales by Segment		(¥millions)				
	2005 4Q	2006 1Q	2006 2Q	2006 3Q	2006 4Q	
Internet Use Support (Infrastructure)						
Access provider	655	633	595	560	536	
Domain registration	396	457	502	497	437	
Web hosting business	1,819	1,872	1,956	1,984	2,043	
Web site construction support	231	268	214	300	321	
Internet security	67	108	101	147	216	
Credit card payment processing	371	384	404	423	450	
E-commerce support	—	107	128	262	317	
Corporate communications	209	99	77	104	53	
Other	76	202	18	86	91	
Segment Sales Total	3,827	4,027	3,998	4,366	4,467	
Internet Advertising Support (Media)						
Internet media construction	474	442	420	443	601	
Internet advertising sales	1,946	1,837	1,388	1,438	1,764	
JWord	712	834	904	893	919	
Online games	184	192	227	237	214	
Other	74	82	66	93	116	
Total	3,393	3,389	3,008	3,106	3,617	
Adjustment for internal transactions	(257)	(146)	(232)	(219)	(229)	
Segment Sales Total	3,135	3,243	2,775	2,886	3,387	
Internet Finance						
Internet finance	4,629	4,506	4,633	5,741	7,220	
Segment Sales Total	4,629	4,506	4,633	5,741	7,220	
Adjustment for internal transactions	(86)	(63)	(78)	(97)	(174)	
Consolidated Sales	11,506	11,713	11,329	12,897	14,901	

II Operating Profit by Segment		(¥millions)				
	2005 4Q	2006 1Q	2006 2Q	2006 3Q	2006 4Q	
Internet Use Support (Infrastructure)	470	662	609	748	671	
Internet Advertising Support (Media)	139	205	57	74	200	
Internet Finance	1,288	74	341	-335	796	
Sub total	1,898	942	1,007	487	1,668	
Adjustment for internal transactions	0	38	20	50	56	
Consolidated Operating Profit	1,898	980	1,028	537	1,724	

Finance Business: Loans and Credit Business Indicators

(Unit: ¥millions)

Item \ Term	Previous Consolidated Fiscal Year (December 31, 2005)	End of Current Consolidated Fiscal Year (December 31, 2006)
Operating Loans Outstanding	80,310	117,167
Unsecured loans without guarantor	77,892	81,645
Unsecured loans with guarantor	2,417	35,523
Secured loans		
Number of Accounts	184,596	270,702
Unsecured loans without guarantor	184,408	197,229
Unsecured loans with guarantor	188	73,473
Secured loans		
Bad debt expenses	6,247	5,886
Allowance for doubtful debts	-6,280	-12,273

(Notes) 1. Operating Loans/ Number of Accounts includes loans outstanding that were off-balance sheet due to credit liquidation:
(End of the current consolidated accounting period: ¥53,379,000,000, End of the previous consolidated accounting period: ¥53,300,000,000, End of the current interim consolidated accounting period: ¥52,954,000,000)
2. Bad debt expenses are the aggregate of bad debt losses (bad debt write-offs) and the allowance for doubtful debts.

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

(Unit: ¥millions)

	2005 4Q	2006 1Q	2006 2Q	2006 3Q	2006 4Q
Operating Revenue	11,506	11,713	11,329	12,897	14,901
Operating Profit	1,898	980	1,028	537	1,724
Ordinary Profit	1,784	1,008	918	475	1,589
Current Net Profit	2,158	33	159	340	-12,633
Total Assets	88,057	90,583	92,844	145,651	146,279
Shareholders' Equity	16,282	17,387	17,276	16,376	11,309

Changes in Operating Results and Financial Condition by Quarter (Non-Consolidated)

(Unit: ¥millions)

	2005 4Q	2006 1Q	2006 2Q	2006 3Q	2006 4Q
Operating Revenue	2,365	2,969	2,969	3,048	3,146
Operating Profit	236	274	303	303	307
Ordinary Profit	334	494	831	280	261
Current Net Profit	598	587	830	448	-5,757
Total Assets	46,358	49,411	49,084	51,231	54,835
Shareholders' Equity	12,574	14,359	14,910	14,109	16,001

Consolidated Financial Statements

(1) Consolidated Financial Statement

1. Consolidated Balance Sheet

Category	Prior Consolidated Fiscal Year (December 31, 2005)		Current Consolidated Fiscal Year (December 31, 2006)	
	Amount (¥thousands)	Composition (%)	Amount (¥thousands)	Composition (%)
(Assets)				
I Current Assets				
1. Cash and deposits	24,192,882		32,940,455	
2. Notes and accounts receivable	2,965,738		3,434,809	
3. Inventory assets	31,605		31,719	
4. Deferred tax asset	1,544,780		2,121,263	
5. Operating loans	27,010,379		63,788,341	
6. Accrued income	3,578,822		1,350,440	
7. Securities business deposit	—		5,352,000	
8. Securities business credit transaction assets	—		5,452,598	
9. Securities business short term guarantee deposit	—		1,050,708	
10. Other	1,771,743		3,463,453	
Allowance for Doubtful Debts	-6,589,597		-12,573,992	
Total Current Assets	54,506,355	61.9	106,411,798	72.8
II Fixed Assets				
1. Tangible fixed assets				
(1) Buildings and structures	255,231		338,674	
(2) Tools and equipment	532,809		666,640	
(3) Land	9,800		0	
(4) Other	30,766		46,796	
Total tangible fixed assets	828,607	0.9	1,052,111	0.7
2. Intangible fixed assets				
(1) Goodwill	409,072		—	
(2) Goodwill and consolidated adjustments account	—		20,633,464	
(3) Software	2,053,300		3,523,557	
(4) Consolidated adjustments account	16,792,246		—	
(5) Other	459,380		329,658	
Total intangible fixed assets	19,713,999	22.4	24,486,679	16.7
3. Investments and other assets				
(1) Investments in securities	6,676,076		6,725,254	
(2) Long term loans receivable	111,839		23,253	
(3) Investments	455,211		458,983	
(4) Security deposit	1,041,181		973,318	
(5) Long term deposit	3,173,388		5,534,555	
(6) Deferred tax asset	678,309		264,656	
(7) Other	886,118		372,210	
Allowance for Doubtful Debts	-13,718		-23,678	
Total Investments and Other Assets	13,008,406	14.8	14,328,553	9.8
Total Fixed Assets	33,551,013	38.1	39,867,344	27.2
Total Assets	88,057,369	100.0	146,279,143	100.0

Category	Prior Consolidated Fiscal Year (December 31, 2005)		Current Consolidated Fiscal Year (December 31, 2006)	
	Amount (¥thousands)	Composition (%)	Amount (¥thousands)	Composition (%)
(Liabilities)				
I Current Liabilities				
1. Notes and accounts payable	1,145,053		773,204	
2. Short term debt	7,591,000		55,626,767	
3. Current portion of long term debt	8,300,400		12,235,030	
4. Bonds to be redeemed within a year	150,000		2,150,000	
5. Convertible bonds with equity warrants to be redeemed within a year	31,000,000		—	
6. Accrued amount payable	2,288,712		10,855,512	
7. Accrued corporate tax etc.	2,610,787		2,026,373	
8. Allowance for bonuses	108,681		119,953	
9. Allowance for bonuses to directors	—		37,700	
10. Advanced payments received	1,382,220		1,833,868	
11. Margin transaction liability	—		5,452,598	
12. Securities business – deposit received	—		4,159,893	
13. Excess interest repayment fund	—		4,295,000	
14. Other	1,858,193		5,770,580	
Total Current Liabilities	56,435,049	64.1	105,336,483	72.0
II Fixed Liabilities				
1. Bonds	4,150,000		3,000,000	
2. Long term debt	5,445,950		11,126,324	
3. Long term accrued amount payable	656,317		4,059,156	
4. Deferred tax liability	2,793		31,143	
5. Allowance for director retirement benefits	50,200		128,200	
6. Allowance for retirement benefits for employees	192,238		199,849	
7. Excess interest repayment fund	—		2,790,000	
8. Other	157,849		63,598	
Total Fixed Liabilities	10,655,349	12.1	21,398,272	14.7
III Special Law Reserve Fund				
Securities transaction liability reserve	—		16,152	
Special Law Reserve Fund Total	—		16,152	0.0
Total Liabilities (Minority Equity)	67,090,398	76.2	126,750,907	86.7
Minority Equity (Shareholders' Equity)	4,684,079	5.3	—	—
I. Capital Stock	3,311,130	3.8	—	—
II. Capital Surplus	5,353,357	6.1	—	—
III. Earned Surplus	7,617,791	8.6	—	—
IV Other Gaps in Appraisal of Securities	28,214	0.0	—	—
V Foreign Currency Conversion Adjustment Account	-3,621	-0.0	—	—
VI Treasury Stock	-23,980	-0.0	—	—
Total Shareholders' Equity	16,282,890	18.5	—	—
Total Liabilities, Minority Equity and Shareholders' Equity	88,057,369	100.0	—	—

Category	Prior Consolidated Fiscal Year (December 31, 2005)		Current Consolidated Fiscal Year (December 31, 2006)	
	Amount (¥thousands)	Composition (%)	Amount (¥thousands)	Composition (%)
(Net Assets)				
I Shareholders' Equity				
1. Capital stock	—	—	7,148,299	4.9
2. Capital surplus	—	—	9,188,342	6.2
3. Earned surplus	—	—	-5,006,591	-3.4
4. Treasury stock	—	—	-208	-0.0
Total Shareholders' Equity	—	—	11,329,842	7.7
II Gaps in Appraisals, Conversions etc.				
Other gaps in appraisal of securities	—	—	4,559	0.0
2. Hedging profit/loss carried forward	—	—	13,351	0.0
3. Foreign currency conversion adjustment account	—	—	-38,432	0.0
Total Gaps in Appraisals, Conversions, etc.	—	—	-20,522	0.0
III Equity Warrants	—	—	33,647	0.0
IV Minority Equity	—	—	8,185,267	5.6
Total Net Assets	—	—	19,528,235	13.3
Liabilities Net Assets Total	—	—	146,279,143	100.0

2. Consolidated Profit and Loss Statement

Category	Prior Consolidated Fiscal Year January 1, 2005 to December 31, 2005		Current Consolidated Fiscal Year January 1, 2006 to 31.12.06		
	Amount (¥thousands)	Percentage (%)	Amount (¥thousands)	Percentage (%)	
I Operating Revenue		37,219,808	100.0	50,842,428	100.0
II Business Expenses		12,814,347	34.4	13,594,374	26.7
III Sales General and Administrative Expenses		20,052,980	53.9	32,976,439	64.9
Operating Profit		4,352,481	11.7	4,271,614	8.4
IV Non Operating Revenue					
1. Interest and dividends received	25,386			12,762	
2. Commissions received	52,297			43,867	
3. Bad debt recovered	2,152			421	
4. Profit on investment partnership	28,349			127,822	
5. Profit on currency exchange	16,769			77,863	
6. Business compensation	48,300			—	
7. Other	74,690	247,946	0.6	62,608	325,345
V Non Operating Expenses					
1. Interest paid	19,020			267,921	
2. New stock issue costs	37,866			38,032	
3. Bond issue costs	21,126			10,000	
4. Loss on investment partnership	3,870			—	
5. Settlement costs	341,470			—	
6. Commissions paid	—			226,150	
7. Other	73,976	497,330	1.3	62,718	604,823
Ordinary Profit		4,103,097	11.0	3,992,136	7.9
VI Extraordinary Profit					
1. Gain on previous term profit and loss adjustment	34,868			25,156	
2. Gain on sale of fixed assets	14,287			183	
3. Gain on sale of investments in securities	459,788			2,159,445	
4. Gain on sale of shares in affiliated companies	3,010,629			343,987	
5. Gain on change in equity investees	1,364,951			544,874	
6. Gain on transfer of business	—			6,185	
7. Gain on reversal of allowance for doubtful debts	20,595			20,499	
8. Other	—	4,905,120	13.2	10,648	3,110,980
VII Extraordinary Loss					
1. Loss on previous term profit and loss adjustment	11,093			—	
2. Loss on sale of fixed assets	95,673			58	
3. Loss on retirement of fixed assets	489,504			62,767	
4. Loss on devaluation of goodwill	82,193			—	
5. Loss on appraisal of investments in securities	330,800			34,530	
6. Loss on sale of investments in securities	—			499,628	
7. Loss on appraisal of stock in affiliated company	10,049			37,448	
8. Loss on sale of stock in affiliated company	6,932			1,100	
9. Loss on appraisal of investments	41,649			—	
10. Shrinkage	—			4,751,331	
11. Loss on change in equity investees	246,289			315,011	

Category	Prior Consolidated Fiscal Year January 1, 2005 to December 31, 2005			Current Consolidated Fiscal Year January 1, 2006 to December 31, 2006		
	Amount	(¥thousands)	Percentage (%)	Amount	(¥thousands)	Percentage (%)
12. Penalty for breaking a lease	75,158			255,671		
13. Business liquidation loss	773,325			55,776		
14. Addition to excess interest repayment fund	—			8,217,497		
15. Change of company name expenses	37,566			—		
16. Damages payment	160,110			—		
17. Loss on redemption of bonds	54,979			—		
18. One-time depreciation of advance payment	—			278,929		
19. Addition to securities transaction liability reserve	—			16,152		
20. Loss on amortization of accrued interest	—			1,442,741		
21. Other	—	2,415,327	6.5	48,855	16,017,501	31.5
Net Profit before Adjustments for Tax etc.		6,592,891	17.7		-8,914,384	-17.5
Corporate, Municipal and Enterprise Taxes	3,222,231			2,089,813		
Adjustment for Corporate Tax etc.	-266,035	2,956,196	7.9	512,475	2,602,289	5.1
Minority Equity Profits		377,741	1.0		583,102	1.2
Net Profit		3,258,953	8.8		-12,099,776	-23.8

3. Consolidated Surplus Statement

	Prior Consolidated Fiscal Year January 1, 2005 to December 31, 2005	
Category	Amount (¥thousands)	
(Capital Surplus)		
I Balance of Capital Surplus at Beginning of Term		5,284,148
II Increase in Capital Surplus		
1. Issue of new shares in stock-swap	30,692	
2. Gain on disposal of treasury stock	38,515	69,208
III Balance of Capital Surplus at End of Term		5,353,357
(Earned Surplus)		
I Balance of Earned Surplus at Beginning of Term		4,768,047
II Increase in Earned Surplus		
1. Net Profit	3,258,953	
2. Increase in earned surplus from reduction in consolidated subsidiaries	2,471	
3. Increase in earned surplus from merger	5,226	3,266,651
III Decrease in Earned Surplus		
1. Dividends	367,330	
2. Bonus for directors	36,063	
3. Decrease in earned surplus due to increase in consolidated subsidiaries	4,023	
4. Decrease in earned surplus from merger	8,805	
5. Decrease in earned surplus due to absorption type demerger	684	416,907
IV Earned Surplus Balance at End of Term		7,617,791

IV. Statement of Changes in Shareholders' Equity etc.

The current consolidated fiscal year (January 1, 2006 to December 31, 2006)

	Shareholders' Equity				
	Capital Stock	Capital Surplus	Earned Surplus	Treasury Stock	Total Shareholders' Equity
Balance on 12.31.05 (¥thousands)	3,311,130	5,353,357	7,617,791	-23,980	16,258,297
Amount of change in this consolidated fiscal year					
Issue of new stock	3,837,169	3,827,072			7,664,241
Profit distribution dividends			-371,835		-371,835
Profit distribution through director bonuses			-55,719		-55,719
Net profit			-12,099,776		-12,099,776
Decrease in earned surplus due to merger			1,955		1,955
Decrease in earned surplus due to increase in consolidated subsidiaries			-99,005		-99,005
Disposal of treasury stock		7,912		23,772	31,685
Change in items other than shareholders' equity in the consolidated accounting period (net amount)					
Total amount of change in this consolidated fiscal year (¥thousands)	3,837,169	3,834,984	-12,624,382	23,772	-4,928,455
Balance on 12.31.06 (¥thousands)	7,148,299	9,188,342	-5,006,591	-208	11,329,842

	Gaps in Appraisals, Conversions, etc				Equity Warrants	Minority Equity	Total Net Assets
	Other Gaps in Appraisals of Securities	Hedging Profit/Loss Carried Forward	Currency Conversion Adjustment Account	Total gap in appraisals, conversions etc.			
Balance on 12.31.05 (¥thousands)	28,214	38,259	-3,621	62,853	—	4,684,079	21,005,230
Amount of change in this consolidated fiscal year							
Issue of new stock							7,664,241
Profit distribution dividends							-371,835
Profit distribution through director bonuses							-55,719
Net profit							-12,099,776
Decrease in earned surplus due to merger							1,955
Decrease in earned surplus due to increase in consolidated subsidiaries							-99,005
Disposal of treasury stock							31,685
Change in items other than shareholders' equity in the consolidated accounting period (net amount)	-23,655	-24,908	-34,811	-83,375	33,647	3,501,188	3,451,461
Total amount of change in this consolidated fiscal year (¥thousands)	-23,655	-24,908	-34,811	-83,375	33,647	3,501,188	-1,476,994
Balance on 12.31.06 (¥thousands)	4,559	13,351	-38,432	-20,522	33,647	8,185,267	19,528,235

5. Consolidated Cash Flow Statement

	Prior Consolidated Fiscal Year January 1, 2005 to December 31, 2005	Current Consolidated Fiscal Year January 1, 2006 to December 31, 2006
Category	Amount (¥thousands)	Amount (¥thousands)
I Cash Flow from Operating Activities		
Net profit or loss before adjustment for tax etc.	6,592,891	-8,914,384
Depreciation expenses	906,553	1,402,780
Shrinkage	—	4,751,331
Amortization of consolidated adjustments account	957,428	—
Amortization of consolidated adjustments account (new)	—	1,754,477
Change in allowance for doubtful debts	-297,663	3,494,406
Decrease in allowance for bonuses	-9,786	-34,861
Increase in reserve retirement benefits	19,627	20,072
Increase in excess interest repayment fund	—	3,063,000
Gain on sale of investments in securities	-459,788	-2,159,445
Gain on sale of stock in affiliated companies	-3,010,629	-343,987
Gain on transfer of goodwill	—	-6,185
Interest and dividends received	-25,386	-12,762
Interest paid	18,948	267,921
Foreign exchange gain or loss	-36,592	-17,866
Stock issue expenses	37,866	38,032
Bond issue expenses	—	10,000
Loss on sale of investments in securities	1	499,628
Loss on appraisal of investments in securities	330,800	34,530
Loss on appraisal of stock in affiliated companies	10,049	37,448
Loss on appraisal of investments	41,649	—
Amortization of goodwill	82,193	—
Loss on retirement of fixed assets	489,504	62,767
Loss on sale of fixed assets	95,673	58
Gain on sale of fixed assets	-14,287	-183
Loss from change of equity investees	246,289	315,011
Gain from change of equity investees	-1,364,951	-544,874
Amount of change in operating loans	-3,074,384	2,973,207
Increase in security deposits received	—	1,527,510
Increase in segregated trust account	—	-5,352,000
Increase in securities deposits	—	4,178,570
Increase in business investments in securities	—	-538,368
Change in accounts receivable	685,514	-397,305
Decrease in inventory assets	16,912	728
Other decrease in assets	1,472,880	150,296
Decrease in purchase debts	-173,401	-482,841
Other change in liabilities	-1,001,403	2,159,270
Directors bonuses paid	-43,025	-69,252
Sub total	2,493,484	7,866,732

	Prior Consolidated Fiscal Year January 1, 2005 to December 31, 2005	Current Consolidated Fiscal Year January 1, 2006 to December 31, 2006
Category	Amount (¥thousands)	Amount (¥thousands)
Interest and dividends received	25,300	4,873
Interest paid	-19,020	-208,023
Payment of damages	-160,110	—
Payment of corporate tax etc.	-2,498,012	-3,118,809
Cash flow from Operating Activities	-158,357	4,544,773
II Cash Flow from Investing Activities		
Expenditure on deposit of fixed deposit	-8	—
Revenue accrued on return of fixed deposit	697,308	1,045,207
Expenditure on acquisition of tangible fixed assets	-417,512	-446,228
Revenue accrued on sale of tangible fixed assets	629,649	343,546
Expenditure on acquisition of intangible fixed assets	-769,332	-1,997,012
Revenue accrued on sale of intangible fixed assets	79,797	1,018
Expenditure on acquisition of securities	—	-995,206
Expenditure on acquisition of investments in securities	-2,462,387	-1,767,220
Revenue accrued on sale of investments in securities	839,655	3,161,591
Revenue accrued on redemption of investments in securities	277,500	50,000
Expenditure on acquisition of subsidiary stock	-2,100,281	-416,421
Revenue accrued on sale of subsidiary stock	3,364,051	361,055
Expenditure on investment in silent partnership with affiliated company	—	-2,900,000
Receipt of subsidiary funds through stock swap	13,564	—
Decrease due to change in scope of consolidation after merger of subsidiaries	-57,265	—
Expenditure on the acquisition of subsidiary stock due to change in scope of consolidation.	-22,850,289	-350,605
Expenditure on loans	-209,053	-15,063
Revenue accrued on collection of loans	112,344	433,256
Expenditure on transfer of business	-30,207	—
Revenue from other investment activities	565,560	312,405
Expenditure on other investment activities	-416,267	-221,010
Cash flow from investing activities	-22,733,175	-3,400,688

	Prior Consolidated Fiscal Year January 1, 2005 to December 31, 2005	Current Consolidated Fiscal Year January 1, 2006 to 31.12.06
Category	Amount (¥thousands)	Amount (¥thousands)
III Cash Flow from Financing Activities		
Revenue accrued on short-term loans	6,800,000	69,266,068
Expenditure on repayment of short term loans	-9,935,800	-46,484,166
Revenue accrued on long term loans	12,446,300	20,597,536
Expenditure on repayment of long term loans	-7,778,000	-16,323,849
Revenue accrued on issue of stock	—	7,626,208
Revenue accrued on issue of bonds	63,128,873	1,990,000
Expenditure on redemption of bonds	-31,475,000	-32,150,000
Income from investment partnership	—	1,470,000
Revenue from issue of new stock to minority shareholders	2,279,947	2,497,858
Income and expenditure on the sale and acquisition of treasury stock	-223,427	31,685
Payment of dividends	-362,399	-365,405
Payment of dividends to minority shareholders	-131,722	-160,626
Cash flow from financing activities	34,748,770	7,995,309
IV Effect of exchange rate on cash and equivalents	9,630	21,542
V Increase in cash and equivalents	11,866,868	9,160,937
Balance of cash and equivalents at the beginning of term	11,319,354	23,202,882
VII Increase in cash and equivalents due to increase in consolidated subsidiaries	16,659	738,786
VIII Increase in cash and equivalents due to merger	—	77,639
VI Balance of Cash and Equivalents at the End of Term	23,202,882	33,180,245