GMO INTERNET

Fiscal Year 2013 Consolidated Financial Results (Japanese GAAP)

February 6, 2014

Name of Listed Company: GMO Internet, Inc.
Exchange Listing: Tokyo Stock Exchange Stock Code: 9449 URL: http://www.gmo.jp/en
Representative: Masatoshi Kumagai, CEO and Representative Director and Group CEO
Official Contact: Masashi Yasuda, CFO and Managing Director Contact Number: +81-3-5456-2555
Date of Annual General Shareholders Meeting: March 23, 2014 Start Date of Dividend Payout: March 10, 2014
Date of Annual Report Release: March 24, 2013
Supplementary documents available pertaining to quarterly financial results: Yes
Quarter results presentation: Yes (for institutional investors and analysts)

(all amounts rounded down to the nearest million yen)

1. Consolidated Results in the Fiscal Year Ended December 2012 (01.01.2012- 12.31.2012)

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

	Net Sales		Operating Profit		Ordinary Profit		Net Profit	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
FYE12/2013	93,704	26.0	11,000	20.2	10,941	19.2	5,244	16.1
FYE12/2012	74,376	20.6	9,149	21.6	9,175	30.8	4,518	5.4

(Note) Comprehensive Income: FYE 12/2013 ¥7,854 million (37.5%) , FYE12/2012 ¥5,711 million (4.4%)

	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
	¥	¥	%	%	%
FYE12/2013	44.51	44.14	22.8	3.1	11.7
FYE12/2012	38.35	38.32	22.8	3.8	12.3

(Reference) Earnings/Loss on Equity Method Investment: FYE 12/2013 ¥85 million, FYE 12/2012 ¥33 million

(2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio	Shareholders' Equity per Share
	¥ millions	¥ millions	%	¥
FYE12/2013	429,762	36,884	5.8	212.12
FYE12/2012	275,960	30,418	7.6	178.86

(Reference) Shareholders' Equity: FYE 12/2013 ¥24,989 million, FYE 12/2012 ¥21,071 million

(3) Consolidated Cash Flow

	Cash Flow from Operating Activities	Cash Flow from Investing Activities	Cash Flow from Financing Activities	Cash And Equivalents End of Term Balance
	¥ millions	¥ millions	¥ millions	¥ millions
FYE12/2013	14,156	-3,851	109	52,823
FYE12/2012	13,722	-3,093	-1,677	41,899

2. Dividends

	Dividends per Share					Total Dividend Payout	Payout Ratio (Consolidated)	Ratio of Dividends to Total Assets (Consolidated)
	End of Q1	End of Q2	End of Q3	End of Term	Total			
	¥	¥	¥	¥	¥	¥ millions	%	%
FYE12/2012	3.00	3.00	3.00	4.00	13.00	1,531	33.9	7.7
FYE12/2013	3.00	3.00	4.00	5.00	15.00	1,767	33.7	7.7
FYE12/2014 (forecast)	4.00	4.00	4.00	4.00	16.00		34.3	

3. Consolidated Results Forecast for the Year Ending December 2014 (01.01.2014 – 12.31.2014)

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

	Net Sales		Operating Profit		Ordinary Profit		Net Profit		Net Profit per Share
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%	¥
First Half	—		—		—		—		—
Full Year	105,000	12.1	12,500	13.6	12,500	14.2	5,500	4.9	46.68

(Note) No first half guidance issued.

*Notes

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

New: 10 companies GamePot, Inc. (GMO GamePot, Inc. and 9 other companies)

Excluded: 2 company (GMO Media Holdings, Inc. and 1 other company) *Please refer to page 33 for details.

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

1. Changes resulting from revisions to accounting policy: yes
2. Changes other than those specified above: none
3. Changes in accounting estimates: yes
4. Restatements: none

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

1. No. of outstanding shares at end of term (Including Treasury Stock)	FYE 12/2013	117,806,777	FYE 12/2012	117,806,777
2. No. of treasury shares at end of term	FYE 12/2013	1,811	FYE 12/2012	1,684
3. Average no. of shares during term	FYE 12/2013	117,805,033	FYE 12/2012	117,805,093

(Reference) Summary of Non-Consolidated Financial Results

1. Non-consolidated Results in the Fiscal Year Ended December 2013 (01.01.2013 - 12.31.2013)

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

	Net Sales		Operating Profit		Ordinary Profit		Net Profit	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
FYE12/2013	21,175	34.2	1,096	-3.2	2,412	-23.3	2,134	-50.8
FYE12/2012	15,774	27.7	1,133	39.1	3,144	21.4	4,336	14.7

	Net Profit per Share	Net Profit per Share (Diluted)
	¥	¥
FYE12/2013	18.12	—
FYE12/2012	36.81	—

(2) Non-consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio	Shareholders' Equity per Share
	¥ millions	¥ millions	%	¥
FYE12/2013	44,109	17,284	39.2	146.72
FYE12/2012	43,899	16,589	37.8	140.82

(Reference) Shareholders' Equity: FYE 12/2013 ¥17,284 million, FYE 12/2012 ¥16,589 million

*Quarterly Results Statement Audit

This results statement is subject to review under the Financial Instruments and Exchange, at the time this result statement was filed the review was ongoing.

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

Projections are based on information available at the time of release and may include judgments based on factors that contain risk and are largely indeterminable. Actual results may differ materially from these projections as a result of business environment and other factors. Please refer to page 6 for details.

Results Presentation for Investors and Analysts: February 6, 2014

A video of the presentation and the presentation slides (both in Japanese and English) will be available on our Investor Relations website (http://ir.gmo.jp/en/) shortly after the event.

Contents

(1) Analysis of Operating Results and Financial Condition

(1) Operating Results

General Conditions

Under the corporate slogan “Internet for Everyone” GMO Internet Group is focused on directing resources into high growth Internet markets. Continued growth in the Internet market is largely centered around the mobile space, and spurred by increased usage of smartphones, tablets and other mobile devices, the progression of cloud technology, and the proliferation of social media such as Twitter, Facebook and LINE, as well as the emerging O2O and omni-channel markets. GMO Internet management views the growth in the market as an opportunity to grow consolidated profits.

In fiscal year 2013, the Group strove to maintain growth in the Web Infrastructure & Ecommerce, Internet Media, and Internet Securities segments, while boosting user numbers and customer base. At the same time, we continued to invest aggressively into smartphone games, a business that is expected to grow into the fourth pillar of the Group amidst a rapidly developing market.

In fiscal year 2013 consolidated Net Sales reached ¥93,704 million (26.0% year-on-year increase), Operating Profit totaled ¥11,000 million (20.2% year-on-year increase), Ordinary Profit totaled ¥10,941 million (19.2% year-on-year increase), and Net Profit was ¥5,244 million (16.1% year-on-year increase). All of these results are record highs.

Overview of Financial Results in Fiscal Year 2013 (Unit: ¥millions)

	Previous Fiscal Year	Current Fiscal Year	Change	% Change
Net Sales	74,376	93,704	19,327	26.0%
Operating Profit	9,149	11,000	1,851	20.2%
Ordinary Profit	9,175	10,941	1,765	19.2%
Net Profit	4,518	5,244	725	16.1%

Net Sales and Operating Profit by Segment in the Fiscal Year 2013 (Unit: ¥millions)

	Previous Fiscal Year	Current Fiscal Year	Change	% Change
Web Infrastructure & Ecommerce				
Net Sales	30,213	38,177	7,963	26.4%
Operating Profit	4,254	5,282	1,027	24.2%
Internet Media				
Net Sales	26,078	30,172	4,093	15.7%
Operating Profit	2,026	1,988	-38	-1.9%
Internet Securities				
Net Sales	16,525	21,431	4,906	29.7%
Operating Profit	4,440	4,778	337	7.6%
Social & Smartphone				
Net Sales	2,860	5,810	2,950	103.1%
Operating Profit	-2,129	-1,212	916	-
Incubation				
Net Sales	604	150	-454	-75.1%
Operating Profit	367	-84	-451	-
Adjustment				
Net Sales	-1,905	-2,038	-132	-
Operating Profit	189	248	59	-
Total				
Net Sales	74,376	93,704	19,327	26.0%
Operating Profit	9,149	11,000	1,851	20.2%

Description of businesses in each segment

Business Segment		Main Operations
Web Infrastructure & Ecommerce	Domain registration	・Domain name (.com, .net, .jp etc.) registration services, Onamae.com, MuuMuu Domain, VALUE DOMAIN and others.
	Web hosting	・Provision, operation, management, and maintenance of dedicated, shared, VPS and cloud-based web hosting services including ConoHa by GMO, GMO CLOUD VPS, GMO CLOUD Public, GMO CLOUD Private, GMO AppsCloud, Lolipop, heteml, and Sqale.
	EC solutions	・SaaS based services for online store building including Color me shop! and MakeShop, and Jugem Cart. ・Development and operation of online shopping malls including Calamel. ・Web design, operational support and system consulting
	Security	・GlobalSign Quick Authentication SSL, enterprise SSL, and other SSL certificate issue services, code signing certificate services, PDF document signing services, client certificates and other digital certificate services
	Payment processing	・Payment processing services including PC Multi-Payment Service for ecommerce and credit card payment processing services for government
	Provider (ISP)	・GMO TokuToku BB, interQ, MEMBERS, ZERO, and other access provider services
Internet Media	Internet media & search media	・Development and operation of blog services yaplog! and JUGEM, Internet community services including freeml, and ebook publishing solutions Booklog and Puboo ・SEM Media JWord operation and sales of JWord, Japanese keywords. Sales of SEO (Search Engine Optimization) services ・Ad Networks Distribution of contextual advertising to owned & operated media and search engine results pages.
	Advertising agencies	・Internet advertising, mobile advertising, search engine advertising, affiliate advertising ・Advertising design
	Other	・Provision of Internet research systems, management and operation of online research panel, GMO Research Cloud Panel
Internet Securities	Internet securities	・Operation of online securities trading, foreign currency trading services etc.
Social & Smartphone	Smartphone games	・Social apps development/operation support ・G-Gee by GMO game apps market for smartphone devices
	Daily deals	・Operation of daily deals website Kumapon by GMO
Incubation	Venture capital	・Investment in private Internet ventures.

i. Web Infrastructure & Ecommerce

The Web Infrastructure & Ecommerce segment provides fundamental Internet services required to operate a business or communicate information in an online environment. The five main sub-segments in Web Infrastructure & Ecommerce are domain registration, web hosting, security, ecommerce, and payment processing, The Group develops and operates all of the services in these segments and holds the number one domestic share in each respective market. The following is a breakdown of results in each of the businesses comprising this segment.

Domain Registration

The domain business continues to expand its user base through aggressive marketing. In fiscal year 2013 domain name registrations and renewals grew 10.5% to 3.79 million, and total domains under management rose 18.4% to 4.25 million. Net sales grew 11.9% year on year to ¥4,615 million.

Web Hosting

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

The external environment saw an increase in demand for cloud-hosting services, and GMO AppsCloud, a cloud-based hosting solution optimized for game app developers and operators, continued to drive growth. For the third consecutive year GMO AppsCloud received the top award in the GameBusiness.jp App Cloud Awards which recognize customer satisfaction in the social games hosting industry.

Overall web hosting contracts increased 5.8% over the previous corresponding term to 716 thousand and net sales grew 8.7% year-on-year to ¥13,685 million.

Ecommerce

Ecommerce provides SaaS based solutions for online stores. In an expanding market, this business is focused on enhancing service functionality to grow customer base. In fiscal year 2013, number of paid stores grew 9.6% year-on-year to 69,000, and total trading volume grew 12.7% to ¥192.5 billion.

Ecommerce reported net sales of ¥3,223 million (19.4% year-on-year increase).

Security

In this sub-segment, sales via SSL partners grew, and SSL market share was expanded both in Japan and globally. Since May 2012, GlobalSign has been the fastest growing certificate authority brand in Japan. Globally certificate issues increased by a substantial 59.0% to 154 thousand.

Security reported net sales of ¥2,665 million (34.9% year-on-year increase).

Payment Processing

This sub-segment is led by GMO Payment Gateway, Inc. (TSE: 3769). In fiscal year 2013, the payment processing business continued to focus on expanding number of merchants, number of transactions and transaction volume. Marketing support solutions were introduced to help merchants drive sales.

Overall number of merchants increased 13.6% over the previous corresponding term to 46 thousand and net sales grew 22.9% year-on-year to ¥5,930 million.

Market share was expanded in each of the key Web Infrastructure & Ecommerce businesses in the period under review and overall segment results were as follows: Net Sales: ¥38,177 million (26.4% year-on-year increase), Operating Profit: ¥5,282 million (24.2% year-on-year increase).

ii. Internet Media

The Internet Media segment provides marketing and customer acquisition solutions for online businesses. The segment comprises, Search Marketing, services optimize customer acquisition through major search engines such as Google and Yahoo, net advertising and a vast stable of owned and operated online properties. The following is a breakdown of results in each of the businesses comprising this segment.

Internet Media & Search Media

In addition to existing media services, Internet Media & Search Media business increasingly focused on smartphone media development and monetization of app content. Net sales increased 3.2% to ¥10,006 million.

2) Internet Advertising Agencies

Internet advertising comprises media rep and agency business operations and is driven by GMO AD Partners (JASDAQ 4784). In the online advertising market, we saw a shift away from traditional display advertising and toward ad networks, while in the mobile ad space the shift from feature phone to smartphone continued. In fiscal year 2013 performance was temporarily impacted as the segment responded to a change in search algorithms, however this was offset by the listing advertising (PC and smartphone) and ad network services. At the same time, the business is concentrating effort on developing proprietary products in order to improve profit margins. Net sales in advertising agencies increased by a significant 22.7% from the previous year to ¥18,228 million. Overall, in the Internet Media segment, Net Sales totaled ¥30,172 million (15.7% year-on-year increase), however as a result of sales mix (growth in low margin listing ad products, and a temporary drop in revenue from high-margin SEO products) Operating Profit fell 1.9% to ¥1,988 million.

iii. Internet Securities

The Internet Securities segment focused on increasing number of accounts, customer assets held, and transaction volume.

In the fiscal year 2013, new account acquisition was strong and number of securities accounts totaled 196,000 (27.6% YoY increase), and number of FX accounts totaled 467,000 (18.0% YoY increase).

In the FX business, trading volume was high, fuelled by expectations surrounding Japanese monetary policy. In GMO CLICK Securities trading volume increased 191% year on year to ¥921 trillion. Approximately 80% of trading volume is accounted for by the low-spread JPY/USD currency pair, and as a result profit contribution is limited. Further, cover transaction costs increased due to currency fluctuations and profitability in the FX business was temporarily impacted. However, revenue and profits rebounded after implementing a spread increase and other measures. In the second half of the year the FX market had begun to cool off and in December we were able to again reduce spreads to the industry's lowest levels.

Total Net Sales in the Internet Securities segment totaled ¥21,431 million (29.7% year-on-year increase) and operating profit was ¥4,778 million (7.6% year-on-year increase).

iv. Social & Smartphone

The Social & Smartphone segment comprises new initiatives in high-growth consumer markets including smartphone. The following is an overview of performance in each of the Social & Smartphone sub-segments.

Smartphone Games

This sub segment comprises smartphone game development, development/operation support for social games, and game app platform G-Gee. GooglePlay, AppStore and other app markets are growing rapidly as a result of the proliferation of smartphone and tablet devices.

In fiscal year 2013, existing game titles including Minerva Knights, which was released in the previous fiscal year consistently maintained a high position in the Google Play revenue rankings. However, market trends in this space are constantly evolving and the sub-segment was challenged to respond to the growing popularity of fully native apps. Overall, the Smartphone Games business reported sales of ¥4,356 million (251.4% year-on-year increase) and an operating loss of ¥1,190 million (operating loss in the previous fiscal year was ¥2,024 million).

Kumapon (Daily Deals)

Kumapon is a daily deals website. The emphasis in this business has been on profitability and the next challenge is to improve new customer acquisition. Kumapon reported sales of ¥1,453 million (10.3% year-on-year decrease) and an operating loss of ¥22 million (operating loss in the previous fiscal year was ¥105 million). Overall in the Social & Smartphone segment, Net Sales grew 103.1% to ¥5,810 million, while aggressive investment in the new segment resulted in an operating loss of ¥1,212 million (operating loss in the previous year was ¥2,129 million). The Group is making every effort to achieve profitability in this segment as early as possible.

Incubation

The Incubation segment invests in expanding business and building enterprise value in Internet-related companies. In fiscal year 2013 net sales reached ¥150 million (75.1% year on year decrease), while the segment reported an operating loss of ¥84 million (¥367 million operating profit was reported in the previous corresponding period).

Results Forecast for Fiscal Year 2014

The company discloses only a full year consolidated results forecast for the fiscal year 2014. Although the Group has constructed a solid business model, the business environment in the Internet market is subject to change rapidly, and in the Securities segment in particular there is a high risk that results will be impacted by finance markets, securities regulations and other external factors.

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

Consolidated forecasts for the 2014 fiscal year are as follows.

Consolidated Results Forecast (01.01.2014 – 12.31.2014) (Unit: ¥millions)

	FYE12/2014	% Change	FYE12/2013
	¥ millions	%	¥ millions
Net Sales	105,000	12.1%	93,704
Operating Profit	12,500	13.6%	11,000
Ordinary Profit	12,500	14.2%	10,941
Net Profit	5,500	4.9%	5,244

(Reference)

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

(Unit: ¥millions)

	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Net Sales	20,319	22,810	23,873	23,310	23,710
Operating Profit	2,564	2,894	2,971	2,748	2,386
Ordinary Profit	2,611	2,859	3,022	2,667	2,392
Net Profit	1,808	1,102	1,293	1,360	1,487
Total Assets	275,960	364,089	363,002	409,971	429,762
Shareholders’ Equity	21,071	21,451	22,802	24,262	24,989

(Reference)

Table: Quarterly Results by Segment

(Unit: ¥millions)

I Net Sales by Segment

		Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Web Infrastructure & Ecommerce						
	Provider (ISP)	656	827	1,112	1,256	1,450
	Domain registration	942	1,138	1,184	1,106	1,186
	Web hosting	3,327	3,342	3,465	3,427	3,450
	Ecommerce	761	845	749	774	853
	Security	504	616	658	674	716
	Payment processing	1,281	1,382	1,426	1,519	1,601
	Other	629	898	838	980	693
	Total	8,102	9,051	9,436	9,738	9,950
Internet Media						
	Internet media & search media	2,347	2,514	2,532	2,523	2,436
	Advertising agencies	3,673	4,491	4,610	4,382	4,744
	Other	469	482	462	434	558
	Total	6,490	7,488	7,604	7,339	7,739
Internet Securities						
	Total	4,837	5,528	5,685	5,162	5,054
Social & Smartphone						
	Smartphone games	435	863	1,231	1,147	1,113
	Daily deals	383	397	392	338	324
	Total	818	1,261	1,624	1,486	1,438
Incubation						
	Total	525	41	42	61	5
Sub total		20,775	23,371	24,393	23,789	24,187
Adjustment		-456	-560	-520	-479	-477
Net Sales		20,319	22,810	23,873	23,310	23,710

*In the third quarter of fiscal year 2013, net sales in ecommerce solutions were ¥774 million. In the third quarter, this was reported as ¥967 million. This discrepancy in due to a revision of sales sub-segments, and the remaining ¥193 million is represented as other net sales.

II Operating Profit by Segment

		Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Web Infrastructure & Ecommerce		1,026	1,318	1,327	1,284	1,352
Internet Media		464	659	593	455	279
Internet Securities		1,174	1,253	1,170	1,169	1,184
Social & Smartphone						
	Smartphone games	-600	-402	-170	-291	-326
	Daily deals	5	0	-1	-8	-12
	Total	-595	-402	-171	-300	-338
Incubation		448	6	3	11	-104
Sub total		2,518	2,835	2,923	2,620	2,372
Adjustment		45	58	47	128	13
Operating Profit		2,564	2,894	2,971	2,748	2,386

(2) Analysis of Financial Condition

Assets, Liabilities and Shareholders' Equity

Assets

At the end of fiscal year 2013 (December 31, 2013), assets had increased ¥153,802 million (55.7%) from the end of the previous fiscal year to ¥429,762 million. Contributing factors included a ¥11,763 million (30.4%) increase in cash, and a ¥138,247 million (72.0%) rise in customer assets in the securities segment (securities segment deposits, margin transaction assets, short term deposits and variation margin paid).

Liabilities

On December 31, 2013 liabilities had increased ¥147,336 million (60.0%) from the end of the previous fiscal year to ¥392,878 million. Fluctuations in liabilities are chiefly attributable to a ¥135,733 million (72.4%) increase in liabilities due to an increase in customer assets in the securities segment (securities segment deposits, margin transaction liabilities, guarantees and variation margin received) and an increase of ¥5,203 million (39.7%) in deposits mainly in the payment processing business. In addition, following an increase in trading in the securities market at the end of December, liquidity on-hand was high, and interest-bearing liabilities rose 14.9% to ¥3,162 million.

Net Assets

At the end of fiscal year 2013 net assets had increased ¥6,465 million (21.3%) from the end of the previous fiscal year to ¥36,884 million. Fluctuations in net assets were chiefly attributable to a ¥3,256 million (26.0%) increase in earnings surplus, an increase in minority equity of ¥2,551 million (27.4%) driven by profit increases in consolidated subsidiaries, and an increase of ¥662 million in other comprehensive income as a result of exchange rate fluctuations.

Cash Flow

At the end of fiscal year 2013 (December 31, 2013), cash and equivalents had increased ¥10,924 million (26.1%) from the end of the previous fiscal year to ¥52,823 million. The following is a summary of cash flow activity in the period under review.

Cash Flow from Operating Activities

Operating activities generated ¥14,156 million (¥13,722 million was generated in the previous corresponding term). Major items included net profit before tax and other adjustments (¥10,360 million), depreciation (¥4,486 million), goodwill amortization (¥1,341 million), an increase in deposits mainly in the payment processing sub-segment (¥5,166 million) and an increase in customer assets in the securities segment (increase in deposits, increase in guarantee deposits, decreases in variation margin paid and received, and changes in margin trading assets and liabilities) totaling ¥2,514 million, and a ¥3,393 million outflow due to corporate tax payments etc.

Cash Flow from Investing Activities

Outflow from investing activities total ¥3,851 million (¥3,093 million outflow in the previous corresponding term). Contributing factors chiefly included acquisition of server equipment and other fixed assets (¥1,425 million) software license updates and the acquisition of other intangible fixed assets (¥1,460 million), acquisition of subsidiary stock (¥1,133 million), and fixed-term deposits (¥900 million), as well as income from the acquisition and sale of investment securities (¥773 million).

Cash Flow from Financing Activities

Inflow from financing activities total ¥109 million (¥1,677 million outflow in the previous corresponding term). Significant inflows included minority interests totaling ¥1,087 million, and a net increase (¥3,106 million) in interest bearing liabilities (short-term debt increase and long-term loan repayment) after liquidity on hand was increased in response to an increase in trading volume in the securities market at the end of December. Major outflows included dividend payments (¥1,649 million) dividend payments to minority shareholders (¥551 million), and finance lease repayments (¥1,670 million).

(Reference) Cash Flow Indicators

	FYE12/2009	FYE12/2010	FYE12/2011	FYE12/2012	FYE12/2013
Shareholders' Equity Ratio (%)	17.2	5.2	9.0	7.6	5.8
Shareholders' Equity Ratio (Market Value) (%)	91.6	24.7	16.9	23.8	37.8
Ratio of Cash Flow to Interest Bearing Liabilities	1.6	2.8	1.8	1.9	1.9
Interest Coverage Ratio	27.2	30.4	42.9	41.4	42.8

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.

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

GMO Internet Group strives to maintain continuous growth by actively reinvesting into business growth while demonstrating a commitment to returning shareholder value through dividend payouts, our policy objective is to distribute 33% of consolidated net profit through dividend payouts after taking into consideration overall business performance and financial condition. The company pays dividends on a quarterly basis in order to promptly return profits to shareholders.

In line with the above policy, the company intends to pay an end of term dividend of 15 yen per share in the current term (33.7% payout ratio) and 16 yen per share in the following term (34.3% payout ratio). The dividend payout start date is scheduled for March 10, 2014.

(4) Business Risks

The following section outlines risks relating to the group's business and financial condition that may be of material concern to investors when making investment decisions.

The Group monitors potential risk factors in its operating environment, makes every effort to mitigate against and manage risk efficiently, and has comprehensive policy in place to that effect.

Some of the items below concern potential future events and unless otherwise stated represent the Group's best judgment at the current point in time. Please note that this should not be considered an exhaustive list of risks associated investment in the company's stock.

I Risks associated with Business Environment

i. Competition

The group provides a comprehensive range of services mainly in the following business segments. 1. Web Infrastructure & Ecommerce comprising chiefly of domain, web hosting, ecommerce solutions & web development, security, and payment processing service businesses, 2. Internet Media consisting of the Internet media & search media business and the Internet advertising agencies business, 3. Internet Securities and 4. Social Media & Smartphone Platform comprising game app development, smartphone game platform, G-Gee and daily deals website, Kumapon. 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 from telecommunications companies, electric companies or independent ventures. It is also possible that a new group with the same business structure will emerge through a series of business partnerships and mergers. If in the future, competition for gaining new customers intensifies and revenue declines, it may become necessary to reduce fees and increase capital expenditure or advertising. This could potentially have a serious 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, new technology, and new products are constantly emerging. If we are slow in taking up new technologies we risk the services and equipment we provide becoming stale, leading to reduced competitiveness and a potentially negative impact the Group's operations and results. We believe it is essential to concentrate efforts on improving the ability of both our systems and our employees, and to pay close attention to developments, trends and new technologies.

iii. Acquisitions

The Group actively seeks both domestic and global merger and acquisition opportunities in order to advance into global markets, expand existing businesses, and acquire technologies or skills.

The Group conducts thorough due diligence into target company financial condition and contractual relationships in order to mitigate against and minimize risk. However, there are cases when time constraints do not allow for sufficient due diligence to be carried out. Therefore it is possible that unexpected or unaccounted for liabilities may arise after the completion of an acquisition. In foreign markets in particular, it may not be possible to execute business plans as intended due to revisions of laws or regulations enacted by local government or because of arbitrary decisions made by the responsible regulatory bodies. This could potentially impact Group performance or make it difficult to recoup investments.

Further, it is possible that the loss of key personnel or customers in the target company could make it difficult to achieve objectives in terms of operating results or financial condition. These factors could also impact the performance of the Group.

In the case of mergers, the Group makes every effort to avoid a deterioration of relations with the partner company by devoting adequate time to discussions and conducting thorough negotiations in order to ensure that a strong and synergistic partnership can be built. However it is possible that expected synergies may not be realized due to differences in management policy that emerge after the formation of the partnership and this may also impact Group performance.

II Risks associated with Compliance

i Laws and Ordinances

The most significant laws and ordinances that pertain to the Group and its operations are as follows. It is also possible that the group will be subject to additional regulations as a result of new laws or revisions aimed at Internet users and related businesses, clarification of the application of existing laws or voluntary restraints that may be required of the industry.

(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.

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

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

However, these laws also apply to the server “space” the Group provides to users. Internet companies are accountable for their own servers (effective April 1, 1999). 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 have made every effort to widely publicize the concerned laws and ordinances. We have also independently established our own regulations prohibiting the distribution of illegal and harmful information on the Internet. However, there is no guarantee that these measures will be sufficient to prevent a user, other related person or governing body lodging a claim or demanding damages in relation to a site operated by one of our users.

(c) Act on the Prohibition of Unauthorized Computer Access

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

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

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

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

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

(e) Act on Specified Commercial Transactions

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

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

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

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

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

Enacted in 2002, these laws aim to encourage a positive 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 bulk-mail distribution.

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

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

(g) Act on the Protection of Personal Information

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

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

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

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

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

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

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

(i) Fund Settlement Act

Enacted on April 1, 2010, the Fund Settlement Act enables non-bank companies to allow the issue of a means of payment in advance and to conduct money transfers by registering as a Fund Transfer Company. The law seeks to ensure the proper conduction of fund transfer services, to protect consumers, to foster the provision of such services, and to improve the security, efficiency and convenience of fund settlement systems.

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

(j) Act against Unjustifiable Premiums and Misleading Representations

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

In 2011, the Group entered the group commerce market with the introduction of daily deals website, Kumapon. The Group strives to fairly represent product and service details and prices and avoid unjustly misleading users by selling coupons representing products and services of significantly higher quality than they are in reality, or causing users to believe they are receiving savings on a seasonal or limited edition product by advertising a "regular price" when no "regular" or "list" price exists.

However in the event that a product or service purchased by a customer is faulty, if advertising contains false claims, or if the user, the government or a judicial agency claims that product or service representation was inaccurate, a complaint may be brought against the Group from the purchaser, and in the event that compensation or damages are sought, trust in the Group may be damaged and business activities and operation may be significantly impacted.

(k) Gang Exclusion Ordinances

On October 10, 2011 the Gang Exclusion Ordinance was enacted by the Tokyo government and the same ordinance was enacted by other municipal governments. Under the ordinance, businesses that suspect new business contracts may support the activities of gangs or contribute to the operation of gangs, must endeavor to confirm whether the other party in the contract has gang ties. If the business operator is entering into a written contract relating to their business they must endeavor to include special clauses. Regulations place obligation on businesses. The Group strives to conduct evaluations of contract parties, provide a written pledge that they are not gangs and provide special clauses. However, if inquiries to the police and anti-gang agencies prove insufficient and the Group unintentionally enters into a transaction or other agreement with a gang – if it becomes necessary to break important contracts or consider compensation there could be considerable 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 web 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 deal with any problems that may arise. However, as a result of damages that cannot be dealt with through the Group’s normal crisis management system, such as major destruction caused by a natural disaster or unauthorized access to the company’s servers or other facilities some 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 Information Security

The Group makes every effort to ensure the security of information it manages and maintains, including personal information, 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.

iv. Damages Liability Arising from Transactions with Third Parties

The Group provides services that enable users to build simple web commerce sites, operates services that allows users to advertise products and services via display advertising or email among other services. In 2011 game app development support, smartphone game platform (G-Gee) 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 user to agree to be liable for transactions with customers who purchase products via their website, to be responsible for the content of advertisements and to make 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 a product or service purchased by a customer is faulty, if advertising contains false claims, or if the user, the government or a judicial agency claims that product or service representation was inaccurate, a complaint may be brought against the Group from the purchaser, and in the event that compensation or damages are sought, trust in the Group may be damaged and business activities and operation may be significantly impacted.

3. Risks associated with Business Activities Abroad

The Group's security business (issue of digital certificates etc.), smart phone app distribution business, payment processing business, domain name registration business and other businesses operate under North American, European, and South East Asian laws as well as laws in other countries and regions. These business operations may be impacted by the revision of current laws or enactment of new laws pertaining to imports and exports, customs regulations, or product liability as well as other unforeseen enactments or revisions of laws, administrative orders, directions and policies in countries in which they operate. Fiscal risks include major lawsuits being brought against the company necessitating expenditure on consultation fees and other legal costs. Other factors including war, conflict, terrorism, and economic or political instability also have the potential to seriously impact the Group's business operations and results.

4. Risks by Sub-segment

(1)Web Infrastructure & Ecommerce

i. Domain registration

The Internet Corporation of Assigned Names and Numbers (ICANN) is the governing body of the domain industry. A significant change in ICANN policy direction could impact the Group's domain registration and management businesses. Earnings in this sub-segment are also impacted by exchange rate fluctuations as domains registered by the registrar business are often purchased form outside of Japan.

ii. Web hosting

In the web hosting market customre needs are continuoslu evolving. Group services including GMO AppsCloud are constantly striving to respond rapidly to market trends, however if competition intensifies in this market, and the Group's services fail to remain competitive, operating results could be impacted.

iii. Ecommerce

The ecommerce market is expanding and as a result participation in the online store solutions space is increasing. The Group aims to remain competitive by providing feature-rich services, however if we fail to maintain a competitive product offering or if we are not able to successfully position our products against the emerging freemium model, operating results may be impacted.

iv. Security

Entry barriers in this market are high, and as a result there are only a few company's, including Group company GMO GlobalSign, dominating the global market. However if competition in this space increases, operating results could be impacted. The Group's security business operates on a global scale, and as such is also vulnerable to currency exchange fluctuation risks.

v. Payment processing

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

vi. Internet Provider

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

(2) Internet Media

i. Internet Media & Search Media

a. Market Trends

The Group provides content and services via the Internet including blogs, media, social networking, and game apps, and aims to expand customer base by building on existing services and developing new services. However, if the Group is unable to provider content attractive to users, operating results may be impacted.

b. Google

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

ii. Advertising Agencies

a.Market Trends

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

b.Competition

The Internet Advertising market is a competive space and as the market grows, participation is expected to increase. The Group's strength in this market is derived from its technology as well as service development and sales. However, if we do not remain competitive in online advertising, operating results may be impacted.

III Risks associated with the Internet Securities Segment

i. Items concerning legal regulations

GMO CLICK Securities and FX PRIME by GMO are licensed financial instruments business operators having received approval of Prime Minister of Japan under Article 29 of the Financial Instruments and Exchange Act, and the companies are subject to the aforementioned act, other laws and Financial Services Agency regulation. In both companies, there is a risk that introduction of new laws or revision of existing laws, could impact the companies' ability to expand their businesses. In addition, the policy direction and regulations of the Financial Services Agency, have significant impact on the two companies' business activities, and could potentially impact operating results and financial condition.

As a financial instruments business operator and member of self-regulatory organizations, Japan Securities Dealers Association and Financial Futures Association of Japan, and a trading participant on the Tokyo and Osaka stock exchanges, GMO CLICK Securities is subject to the regulations of each of these organizations and exchanges. FX PRIME by GMO is also a member of the Financial Futures Association of Japan and is subject to the association's regulations.

Both companies operate under these laws and other regulations, and in the event of any violations resulting in damages claims, disposition or other measures, the Group's image, business, operating results or financial condition may be impacted. In addition, unexpected new or revised laws, rules or voluntary regulations introduced by relevant industry organizations may damage the Group, and its business activities and performance.

ii Risks related to Capital Adequacy Ratio

Pursuant to Article 46 paragraph 6 of the Financial Instruments and Exchange Act, financial instrument service operators are required to maintain a capital adequacy ratio of 120% or higher.

As of December 31, 2013 GMO CLICK Securities' capital adequacy ratio was at 335.2%, and FX PRIME by GMO at 498.9% - solid ratios for financial instruments service operators. Both companies aim to strengthen financial base through measures including capital increases and maintaining internal reserves, thereby striving to maintain and improve this ratio. However, a significant drop in capital adequacy ratio due to unforeseen circumstances could impact the Group's business and operating results.

iii. Risks associated with Business Environment

GMO CLICK Securities offers products including spot trading and margin trading of securities, foreign exchange trading, stock market index futures, stock market index options and CFD trading. FX PRIME by GMO provides foreign exchange trading. Both companies' profits are impacted by the securities market, the foreign exchange market and other environmental factors. The Group's operating results could be affected by a decline in trading volume caused by a downturn in investor confidence in the stock markets or foreign exchange markets resulting from economic, political or judicial factors or any amendment to tax regulations that weakens investor climate. In addition, a return to more intense price competition could impact operating results if transaction fees are reduced without being offset by an increase in transaction volume.

GMO CLICK Securities and FX PRIME by GMO take a foreign exchange proprietary position in to cover the opposite position in customer transaction in the foreign exchange margin transaction business. This position offsets trading with other customers, and risks associated with subsequent fluctuations in exchange rates are mitigated against by taking out cover transactions with counterparties.

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

vi. Computer Systems

The majority of GMO CLICK Securities and FX PRIME by GMO transactions occur over their systems and for this reason we recognize that stable systems operation is vital to our business.

GMO CLICK Securities and FX PRIME by GMO are continuously carrying out system maintenance, improving applications, and strengthening hardware and network infrastructure. However, system malfunction caused by unforeseen circumstances could result in customers being unable to trade. This could lead to loss of business opportunities or loss of customers due to negative publicity. Compensation claims from customers who suffer losses as a result of system malfunction could impact the Group's operating results. Depending on extent of the system malfunction, it could also impede business continuity.

vi. Customer Margin Risk

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

(4) Smartphone Games

(i) Market Trends

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

(ii) Platform Trends

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

IV Reliance on Chief Executive Officer

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

V Risks related to Intangible Assets

i. Intellectual property risks

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

ii. Brand Risks

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

VII Capital Market Risks

i. Interest Rate Fluctuation Risks

The Group predominantly procures business funding in the form of loans from financial institutions. As of the end of December 2013, consolidated interest-bearing liabilities stood at ¥24,357 million. The Group conducts interest rate swap transactions against part of its interest-bearing debt in order to stabilize interest rates and manage exposure to fluctuations. However, it is conceivable that financial market movements could impact Group performance.

ii. Exchange Rate Risks

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

VIII Capital Procurement Risks

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

VIII System Risks

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

IX. Risks associated with Internal Controls

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

X. Natural Disaster Risks

Earthquakes, tsunamis, typhoons, bad weather, power outages, fire, disease, radioactive contamination, intense solar storms, meteorite showers and other natural disasters could impact the Group's business operation or continuity. Further, political change, war, acts of terrorism, coup d'états, foreign military attack or occupation, confiscation of Group property by a government, illegal repossession of Group property by a third party or other acts may also impact the Group's business operation or continuity. The Group makes every effort to mitigate against risks to business continuity however large-scale physical damage could impede the Group's ability to continue operations.

2. The Corporate Group

GMO Internet Group comprises GMO Internet, Inc. and its 75 consolidated subsidiaries. The group operates chiefly in five business segments Web Infrastructure & Ecommerce, Internet Media, Internet Securities, and Social& Smartphone, and Incubation.

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
Web Infrastructure & Ecommerce	Domain registration	Domain registration	GMO Internet, Inc. paperboy&co. Inc. DigiRock, Inc.
	Web hosting	Web hosting	GMO Internet, Inc. GMO CLOUD, Inc. paperboy&co. Inc. GMO CLOUD AMERICA INC. GMO Business Support, Inc. GMO CLOUD West, Inc.
	Ecommerce	Online store building SaaS services, online shopping mall operation, web design and management support, system consulting.	GMO Internet, Inc. GMO SystemConsulting, Inc. paperboy&co. Inc. GMO SolutionPartner, Inc. GMO MAKESHOP, Inc. GMO Fast Translation, Inc.
	Security	SSL certificate issue	GlobalSign K.K. GMO GlobalSign Ltd. GMO GlobalSign NV GMO GlobalSign, Inc. and 3 other companies
	Payment processing	Non-face-to-face payment processing services	GMO Payment Gateway, Inc. Epsilon, Inc. Social Appli Payment Processing Services, Inc.
	Provider (ISP)	Internet access provider	GMO Internet, Inc.
	Other businesses	Other	Communication Telecom, Inc.
Internet Media	Internet media & search media	Internet media operation, SEM media development, and ad network services	GMO Internet, Inc. GMO AD Partners, Inc. GMO Media Holdings, Inc. GMO Media, Inc. JWord, Inc. GMO TECH, Inc. GMO SolutionPartner, Inc. paperboy&co. Inc. Booklog, Inc.
	Advertising agencies	Internet advertising, ad planning and development	GMO AD Partners, Inc. GMO Mobile, Inc. Seed Technology, Inc. GMO NIKKO, Inc. GMO Searchteria, Inc.
	Other	Internet research	GMO Research, Inc.

Internet Securities	Internet securities	Operation of online securities trading, foreign currency trading services etc.	GMO CLICK Securities, Inc. FX Prime by GMO Corporation GMO CLICK HONG KONG LIMITED
Social & Smartphone	Smartphone games	Game app development and management support, smartphone game platform G-Gee	GMO Internet, Inc. GMO GameCenter, Inc.
	Daily deals	Daily deals website	GMO Kumapon, Inc.
Incubation	Venture capital	Investment in unlisted Internet ventures.	GMO VenturePartners, Inc. GMO VenturePartners Investment Limited Partnership Blog Business Fund Investment Limited Partnership

3. Management Policy

(1) Basic Management Principles

Under the corporate slogans Internet for Everyone, Japan's Leading All-in Provider of Internet Service, the Group is focused on the provision of Internet infrastructure and services. The Group strives to make a contribution to society through the cultivation of Internet culture and development of the industry.

(2) Management Objectives and Indicators

GMO Internet Group is committed to growing profits. The group considers the ratio of sales to ordinary profit, and the percentage change in ordinary profit to be a gauge of profitability and an important management indicator. Currently, we do not make public announcements regarding mid-term objectives however we are continuously aiming for further improvement.

(3) Medium to Long-Term Business Strategies

The group's Web Infrastructure & Ecommerce, Internet Media, Internet Securities, and Social & Smartphone business segments operate under the marketing slogan is Japan's leading all-in provider of Internet services.
In each of the four segments the Group aims to maintain a solid stable of number one products.
Going forward we expect that external factors including increasing smartphone and tablet penetration, as well as advances in cloud technology in the Internet to further boost growth. At the same time we are contributing to the growth and development of the Internet.

4. Company Challenges

(i) Effective group management - fostering group synergy

The group is comprised of 75 consolidated subsidiaries, one important objective is to ensure the Group is able to make timely and autonomous decisions while at the same time generating and leveraging synergies within the Group.
Going forward we will continue striving to improve Group management efficiency and cultivate synergy between business segments in order to ensure the most effective usage of management resources.

(ii) Expansion of services for mobile devices, evolution of the Internet environment

The mobile Internet is growing, driven by increasing usage of smartphones and other mobile devices.The majority of the Group's customers operate Internet businesses, and ensuring that the products and services we provide are mobile ready and optimized is also an important issue.
As Japan's Leading All-in Internet Services Provider, the Group will continue strengthening its in-house development capabilities and striving to stay ahead of new technologies in order to ensure that our products and services continue to meet the evolving needs of our customers.

(iii) Global growth

Currently, only Security and a limited number of Group businesses operate in markets outside of Japan. We believe it is important to establish a position as an "All-in Provider of Internet Services" globally and direct focus toward high-growth international markets. The Web Infrastructure & Ecommerce, Internet Securities and Social & Smartphone segments are stepping up focus on global markets.

(iv) Maintaining technology advantage - attracting and retaining highly skilled engineers

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.

5. Other Significant Items regarding Management

None

4. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2012)	Current Fiscal Year (As of Dec 31, 2013)
Assets		
Current Assets		
Cash and deposits	45,718	57,481
Trade notes and accounts receivable	6,435	8,420
Operational investment securities	661	843
Securities segment deposits	122,914	196,553
Securities segment margin transaction assets	41,060	96,406
Securities segment short term guarantee deposits	17,824	22,691
Securities segment variation margin paid	10,188	14,584
Deferred tax asset	1,816	3,016
Other	8,259	8,322
Provision for doubtful debts	-429	-473
Total Current Assets	254,450	407,848
Fixed Assets		
Tangible fixed assets		
Buildings and structures	769	1,272
Tools and equipment	1,676	2,172
Lease assets	4,570	4,647
Other	231	399
Total tangible fixed assets	7,246	8,491
Intangible fixed assets		
Goodwill	3,551	3,670
Software	3,761	4,070
Other	507	587
Total intangible fixed assets	7,821	8,327
Investments and other assets		
Investment securities	1,533	1,887
Deferred tax asset	3,163	1,452
Other	2,100	2,026
Provision for doubtful debts	-355	-271
Total investments and other assets	6,441	5,095
Total Fixed Assets	21,510	21,914
Total Assets	275,960	429,762

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2012)	Current Fiscal Year (As of Dec 31, 2013)
Liabilities		
Current liabilities		
Trade notes and accounts payable	2,283	3,152
Short term debt	3,700	10,200
Current portion of long term debt	5,092	3,247
Amount payable	6,141	7,165
Securities segment deposits received	11,245	28,127
Securities segment margin transaction liability	35,702	82,134
Securities segment guarantees received	136,616	206,848
Securities segment variation margin received	4,018	6,205
Accrued corporate tax etc.	1,470	1,134
Allowance for bonuses	336	405
Allowance for bonuses to directors	219	200
Advance payment received	3,479	3,788
Deposits received	13,118	18,321
Other	4,506	4,930
Total Current Liabilities	227,932	375,862
Fixed Liabilities		
Long term debt	12,401	10,910
Tax liability carried forward	25	38
Other	4,354	4,618
Total Fixed Liabilities	16,781	15,567
Statutory Reserve		
Financial instruments transaction liability reserve	828	1,449
Total Statutory Reserve	828	1,449
Total Liabilities	245,542	392,878
Net Assets		
Shareholders' Equity		
Capital stock	3,000	100
Capital reserve	5,836	8,736
Earned surplus	12,509	15,765
Treasury stock	-0	-0
Total Shareholders' Equity	21,344	24,600
Other Comprehensive Income		
Other securities valuation differences	-199	53
Hedging profit/loss carried forward	-52	-50
Currency translation account	-21	385
Total Other Comprehensive Income	-273	388
Equity Warrants	22	19
Minority Equity	9,323	11,875
Total Net Assets	30,418	36,884
Liabilities, Net Assets Total	275,960	429,762

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

Consolidated Profit & Loss Statement

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2012-12.31.2012)	Current Fiscal Year (01.01.2013-12.31.2013)
Net Sales	74,376	93,704
Cost of Sales	30,915	41,199
Gross Profit on Sales	43,460	52,504
Sales, General & Administrative Expenses	34,311	41,503
Operating Profit	9,149	11,000
Non Operating Revenue		
Interest received	7	7
Dividends received	60	31
Currency translation gain	16	43
Equity method investment gain	33	85
Expired points gain	70	88
Other	345	185
Total Non Operating Revenue	534	442
Non Operating Expenses		
Interest paid	331	329
Commission paid	79	64
Other	97	107
Total Non Operating Expenses	507	501
Ordinary Profit	9,175	10,941
Extraordinary Profit		
Gain on sale of investment securities	160	652
Gain on sale of affiliated company stock	150	196
Negative goodwill gain	532	—
Gain on change in equity investees	7	17
Other	18	39
Total Extraordinary Profit	869	905
Extraordinary Loss		
Loss on disposal of fixed assets	165	38
Impairment loss	107	581
Provision for securities transaction liability reserve	171	620
Office relocation expenses	76	54
Other	76	191
Total Extraordinary Loss	597	1,486
Net Profit before Adjustment for Tax etc.	9,447	10,360
Corporate, Municipal and Enterprise Taxes	3,189	2,900
Corporate Tax etc. Adjustment	276	496
Total Corporate Taxes etc.	3,466	3,397
Net Profit before Minority Interests	5,980	6,963
Minority Interests	1,461	1,719
Net Profit	4,518	5,244

Other Comprehensive Income

	Previous Fiscal Year (01.01.2012-12.31.2012)	Current Fiscal Year (01.01.2013-12.31.2013)
		(¥millions)
Net Profit before Minority Equity Adjustment	5,980	6,963
Other Comprehensive Income		
Other securities valuation differences	-431	302
Hedging profit/loss carried forward	-50	1
Currency translation adjustment account	213	587
Total other comprehensive income	-268	891
Comprehensive Income	5,711	7,854
(Breakdown)		
Comprehensive income attributable to parent company shareholders	4,251	5,906
Comprehensive income attributable to minority shareholders	1,459	1,948

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

Previous Accounting Term (01.01.2012 – 12.31.2012)

(Unit: ¥millions)

	Shareholder's Equity				
	Capital	Capital Reserve	Earned Surplus	Treasury Stock	Total Shareholders' Equity
Beginning balance	2,000	6,836	9,651	-0	18,487
Changes during term					
Dividends			-1,649		-1,649
Net Profit			4,518		4,518
Acquisition of treasury stock				—	—
Decrease in Earned Surplus due to increase in consolidated subsidiaries			-11		-11
Transfer from capital reserve to capital	1,000	-1,000			
Transfer from capital to capital reserve					
Difference in equity interests					
Changes in items other than shareholders' equity in the current term (net amount)					
Total changes during term	1,000	-1,000	2,857	—	2,857
Balance at end of current term	3,000	5,836	12,509	-0	21,344

(Unit: ¥millions)

	Other Comprehensive Income				Equity Warrants	Minority Equity	Total Net Assets
	Other Securities Valuation Differences	Hedging Profit/Loss Carried Forward	Currency Translation Adjustment Account	Total Other Comp Income			
Beginning balance	150	-1	-155	-6	26	7,618	26,125
Changes during term							
Dividends							-1,649
Net Profit							4,518
Acquisition of treasury stock							—
Decrease in Earned Surplus due to increase in consolidated subsidiaries							-11
Transfer from capital reserve to capital							
Transfer from capital to capital reserve							
Difference in equity interests							
Changes in items other than shareholders' equity in the current term (net amount)	-349	-50	133	-266	-3	1,705	1,434
Total changes during term	-349	-50	133	-266	-3	1,705	4,292
Balance at end of current term	-199	-52	-21	-273	22	9,323	30,418

Current Accounting Term (01.01.2013 – 12.31.2013)

(Unit: ¥millions)

	Shareholders' Equity				
	Capital	Capital Reserve	Earned Surplus	Treasury Stock	Total Shareholders' Equity
Beginning balance	3,000	5,836	12,509	-0	21,344
Changes during term					
Dividends			-1,649		-1,649
Net Profit			5,244		5,244
Acquisition of treasury stock				-0	-0
Decrease in Earned Surplus due to increase in consolidated subsidiaries			-0		-0
Transfer from capital reserve to capital					
Transfer from capital to capital reserve	-2,900	2,900			—
Difference in equity interests			-338		-338
Changes in items other than shareholders' equity in the current term (net amount)					
Total changes during term	-2,900	2,900	3,256	-0	3,209
Balance at end of current term	100	8,736	15,765	-0	24,600

(Unit: ¥millions)

	Other Comprehensive Income				Equity Warrants Other	Minority Equity	Total Net Assets
	Other Securities Valuation Differences	Hedging profit/loss carried forward	Currency Translation Adjustment Account	Total Other Comp Income			
Beginning balance	-199	-52	-21	-273	22	9,323	30,418
Changes during term							
Dividends							-1,649
Net Profit							5,244
Acquisition of treasury stock							-0
Decrease in Earned Surplus due to increase in consolidated subsidiaries							-0
Transfer from capital reserve to capital							
Transfer from capital to capital reserve							—
Difference in equity interests							-338
Changes in items other than shareholders' equity in the current term (net amount)	253	1	407	662	-3	2,551	3,209
Total changes during term	253	1	407	662	-3	2,551	6,465
Balance at end of current term	53	-50	385	388	19	11,875	36,884

(Unit: ¥millions)

	Previous Fiscal Year (01.01.12-12.31.12)	Current Fiscal Year (01.01.13-12.31.13)
Cash Flow from Operating Activities		
Net Profit before tax etc.	9,447	10,360
Depreciation expenses	3,054	4,486
Impairment loss	107	581
Amortization of goodwill	1,294	1,341
Change in provision for doubtful debts (-represents decrease)	-20	-64
Change in financial instruments transaction liability reserve (-represents decrease)	171	620
Change in provision for bonuses (- represents decrease)	-151	20
Interest and dividends received	-67	-39
Interest paid	331	329
Loss on disposal of fixed assets	165	38
Gain or loss on sale of investment securities (- represents gain)	-147	-647
Gain or loss on sale of affiliated company stock (- represents gain)	-150	-196
Change in accounts receivable (-represents increase)	-443	-1,198
Change in purchase debts (- represents decrease)	221	532
Change in amount payable (- represents decrease)	2,108	1,003
Change in deposits received (- represents decrease)	1,484	5,166
Change in deposits in securities segment (- represents increase)	-45,685	-73,638
Change in short term guarantee deposits in securities segment (-represents increase)	5,695	-4,867
Change in margin variation paid and received in securities segment	2,494	-2,208
Changes in deposits and guarantees received in securities segment (- represents decrease)	39,665	87,113
Changes in margin trading assets and liabilities	796	-8,913
Other	-4,054	-1,982
Sub total	16,317	17,838
Interest and dividends received	45	41
Interest paid	-331	-330
Corporate tax etc. paid	-2,308	-3,393
Cash Flow from Operating Activities	13,722	14,156
Cash Flow from Investing Activities		
Payment of fixed term deposit	-580	-900
Income from return of fixed term deposit	250	100
Expenditure on acquisition of tangible fixed assets	-1,383	-1,425
Expenditure on acquisition of intangible fixed assets	-1,881	-1,460
Expenditure on acquisition of investment securities	-134	-622
Income accrued on sale of investment securities	186	1,395
Expenditure on acquisition of subsidiary stock	-351	-489
Income accrued on sale of subsidiary stock	157	—
Income accrued on the acquisition of subsidiary stock resulting in change in scope of consolidation	1,312	73
Expenditure on the acquisition of subsidiary stock resulting in change in scope of consolidation	-150	-717
Expenditure on transfer of business	-473	-10
Other	-44	205

(Unit: ¥millions)

	Previous Fiscal Year (01.01.12-12.31.12)	Current Fiscal Year (01.01.13-12.31.13)
Cash Flow from Investing Activities	-3,093	-3,851
Cash Flow from Financing Activities		
Income accrued on short term loans	54,000	118,410
Expenditure on repayment of short term loans	-55,925	-111,910
Income accrued on long term loans	6,450	2,000
Expenditure on repayment of long term loans	-2,732	-5,393
Repayment of finance lease obligations	-1,261	-1,670
Income from investment partnership	—	1,000
Expenditure on repayment to investment partner	-157	-213
Revenue accrued from minority interests	59	87
Payment of dividends	-1,649	-1,649
Payment of dividends to minority shareholders	-461	-551
Cash Flow from Financing Activities	-1,677	109
Currency Translation Adjustment on Cash and Equivalents	169	452
Change in Cash and Equivalents (- represents decrease)	9,120	10,866
Balance of Cash and Equivalents at Beginning of Term	32,743	41,899
Increase in Cash and Equivalents following Increase in Consolidation	36	57
Balance of Cash and Equivalents at End of Term	41,899	52,823

(5) Notes to consolidated financial statements

Notes regarding the Going Concern Assumption

None

Significant items concerning the consolidated financial statements

1. Items concerning the scope of consolidation

(1) Number of consolidated subsidiaries: 75 (including 4 partnerships)

Names of significant consolidated subsidiaries

GMO AD Partners, Inc.

GMO CLOUD, Inc.

GMO PaymentGateway, Inc.

paperboy&co. Inc.

GMO CLICK Securities, Inc.

FX PRIME by GMO Corporation

The following companies were added to the consolidation during the current fiscal year: GamePot, Inc. (now GMO GamePot, Inc.), GMO Innovators, Inc, GMO China Concierge, Inc. Concierge Co.,Ltd. and two other companies were acquired, GMO CLOUD PTE.LTD increased in significance to the Group, Global Payment Fund, GMO PAYMENT GATEWAY HONG KONG LTD. and 4 other companies were newly established.

The following companies were excluded from the consolidation during the current term for the following reasons: GMO Media Holdings, Inc was absorbed by GMO Internet, Seed Technology, Inc. was absorbed by another consolidated subsidiary, and Internet Number, Inc. was disbanded.

(2) Names of significant non- consolidated subsidiaries

Patent Incubation Capital, Inc.

Reasons for exclusion from the consolidation

All 27 non-consolidated subsidiaries are small-scale companies. None of the companies' total assets, sales, net profit (equal to the equity share) and earned surplus (equal to the equity share) totals have a significant impact on consolidated financial statements.

2. Items concerning application of equity method

(1) Number of companies to which the equity method is applied: 3

Names of significant equity method affiliates:

SuperAppli, Inc.

Tri's Digital Base, Inc. was newly established and was accounted for as an equity method affiliate in the current fiscal year.

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

Patent Incubation Capital

The net profit and loss (equal to the equity share), and earned surplus (equal to the equity share), etc. of each of the 27 non-consolidated subsidiaries and 4 affiliated companies including HUMEIA REGISTRY Co. Ltd, has immaterial impact on overall performance. For this reason they are not accounted for as equity method affiliates.

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

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

Close of fiscal year: September 30

GMO Payment Gateway, Inc.

GMO Epsilon, Inc. and 6 other companies

Close of fiscal year: March 31

GMO CLICK Securities, Inc. and 6 other companies

Close of fiscal year: May 31 GMO

GMO Venture Partners Investment Limited Partnership and 2 other companies

In regard to GMO Venture Partners Investment Limited Partnership and 2 other companies, consolidated financial statements are based on provisional statements provided by the subsidiaries on November 30.

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

4. Items concerning accounting standards

(1) Method and standards for the evaluation of assets

(i) Marketable securities

Available for sale securities

Contract base market value method

Bonds held to maturity

Amortized cost (straight-line) method

Other marketable securities (including operating investment securities)

Securities with a market value:

Stated at actual market value on the closing day of the fiscal term. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. The cost of securities sold 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)

Fixed rate method.

Useful life

Buildings and structures: 8-22 years

Tools and equipment: 2-20 years

(ii) Intangible fixed assets (excluding lease assets)

Fixed rate method

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

(iii) Lease Assets

Finance lease transactions that do not transfer ownership

Finance lease transactions that do not transfer ownership are calculated using the number of years on the lease as the useful life, and the residual value as equal to zero. Finance lease transactions that do not transfer ownership and have an inception date prior to December 31, 2008 are accounted for as ordinary leases transactions.

(3) The calculation of significant reserves

(i) Allowance for doubtful debt

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

(ii) Allowance for bonuses

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

(iii) Allowance for Director bonuses

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

(iv) Financial transaction liability reserve

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

(4) Hedge accounting method

(i) Hedge accounting method

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

(ii) Hedging instruments and hedged items

a) Hedging instruments: foreign exchange contracts

Hedged items: foreign currency debt, foreign currency forecast transactions

b) Hedging Instruments: interest rate swaps

Hedged items: interest on loans

(iii) Hedging policy

The Company trades currency to mitigate exchange rate fluctuation risk. Interest rate swap transactions are conducted to minimize risk arising from interest rate fluctuations. Individual contracts are drawn for each hedge item.

(iv) Method of evaluating effectiveness of hedge accounting transactions

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

(5) Method and term of goodwill amortization

Goodwill in GlobalSign NV is amortized over 7 years. In all other cases goodwill is amortized equally over 5 years, with the exception of small amounts which are amortized 1 time as they occur.

(6) Scope of the Consolidated Cash Flow Statement

Funds (cash and equivalents) stated in the consolidated cash flow statements are cash on hand, deposits that can be drawn on as needed and short term investments that can be readily converted, bear minimal price fluctuation risk and whose date of maturity falls within 3 months of the date of acquisition.

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

(i) Accounting treatment of consumption tax etc.

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

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

(ii) Accounting treatment of foreign exchange margin transactions

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

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

In addition, customer assets (deposits) are reported separately on the consolidated balance sheet as “Deposits in the securities segment” in accordance with Article 43 paragraph 3.1 of Financial Instruments and Exchange laws and Article 143 paragraph 1.1 of the related Cabinet Office Ordinance.

(iii) Application of consolidated tax payment system

The consolidated tax payment system is applied.

Changes to Accounting Policy

Change in Method of Depreciation

All tangible fixed assets acquired after January 1, 2013 by GMO Internet and consolidated subsidiaries in Japan are depreciated in accordance with the revised corporate tax law.

The impact of this change is immaterial.

Changes in Method of Presentation

Consolidated Balance Sheet

In the previous consolidated fiscal year, “lease obligations” were reported as an individual line item under fixed assets, however in the current fiscal year lease obligations are included in the line item “other” due to the decrease in amount. This change has also been reflected in the previous fiscal year for the purpose of theses consolidated financial statements.

As a result, in the previous fiscal year, ¥3,419 million has been moved from “lease obligations” to “other”.

Consolidated Statement of Income

In the previous fiscal year, “income from investment partnership” was reported as a separate line item. This year it accounted for less than 10/100 of non-operating revenue and was therefore reported under “other”. In order to reflect this change, “income from investment partnership” is presented as a separate line item in the previous year (¥187 million).

Segment Data

Segment Data

1. Overview of Reportable Segments

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

GMO Internet Group operates a comprehensive line up of Internet related services. The Group’s operations are divided into five business segments according to service type. The five segments are: Web Infrastructure & Ecommerce, Internet Media, Internet Securities, Social & Smartphone, and Incubation.

The Web Infrastructure & Ecommerce segment provides businesses and individuals with the tools required to communicate over the Internet. Services include domain registration, web hosting, Internet security, ecommerce solutions, and payment processing services. The Internet Media segment provides Internet marketing solutions. In addition to media properties including blog and online community services, this segment operates Japanese keyword search service JWord and sells SEM media, Search Engine Optimization, as well as Internet advertising. The Internet Securities segment operates online securities and foreign exchange trading services. The Social & Smartphone segment provides social apps development support and operates smartphone game platform G-Gee, and group commerce website, Kumapon by GMO. The Incubation segment invests primarily in unlisted Internet related businesses.

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

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

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

Previous Accounting Term (01.01.2012 – 12.31.2013)

(Unit: ¥millions)

	Segment						Adjustment	Total
	Web Infrastructure & Ecommerce	Internet Media	Internet Securities	Social & Smartphone	Incubation	Total		
Net Sales								
Sales to unaffiliated customers	29,702	24,690	16,525	2,853	604	74,376	—	74,376
Internal transactions and transfers	511	1,387	—	6	—	1,905	-1,905	—
Total	30,213	26,078	16,525	2,860	604	76,282	-1,905	74,376
Operating profit/loss (-)	4,254	2,026	4,440	-2,129	367	8,959	189	9,149
Other items								
Depreciation expenses	1,835	224	839	154	—	3,054	—	3,054

(notes) 1.The segment profit adjustment (¥189 million) is an adjustment for internal segment transactions.

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

Current Accounting Term (01.01.203 – 12.31.203)

(Unit: ¥millions)

	Segment						Adjustment	Total
	Web Infrastructure & Ecommerce	Internet Media	Internet Securities	Social & Smartphone	Incubation	Total		
Net Sales								
Sales to unaffiliated customers	37,594	28,724	21,431	5,803	150	93,704	-	93,704
Internal transactions and transfers	583	1,447	-	7	-	2,038	-2,038	-
Total	38,177	30,172	21,341	5,810	150	95,742	-2,038	93,704
Operating profit/loss (-)	5,282	1,988	4,778	-1,212	-84	10,752	248	11,000
Other items								
Depreciation expenses	2,430	254	1,204	596	-	4,486	-	4,486

(notes) 1.The segment profit adjustment (¥248 million) is an adjustment for internal segment transactions.

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

Related Information

Previous Accounting Term (01.01.2012 – 12.31.2012)

1. Data classified by product/service

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

2. Data classified by geographic region

(1) Net Sales

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

(2) Tangible fixed assets

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

3. Data classified by major customer

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

Current Accounting Term (01.01.2013 – 12.31.2013)

1. Data classified by product/service

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

2. Data classified by geographic region

(1) Net Sales

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

(2) Tangible fixed assets

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

3. Data classified by major customer

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

Data relating to impairment loss on fixed assets by reportable segment

Previous Accounting Term (01.01.2012 – 12.31.2012)

(Unit: ¥millions)

	Segment						Adjustment	Total
	Web Infrastructure & Ecommerce	Internet Media	Internet Securities	Social & Smartphone	Incubation	Total		
Impairment loss	14	18	41	33	–	107	–	107

Current Accounting Term (01.01.2013 – 12.31.2013)

(Unit: ¥millions)

	Segment						Adjustment	Total
	Web Infrastructure & Ecommerce	Internet Media	Internet Securities	Social & Smartphone	Incubation	Total		
Impairment loss	50	0	44	485	–	581	–	581

Data regarding goodwill amortization and unamortized balance by reportable segment

Previous Accounting Term (01.01.2012 – 12.31.2012)

(Unit: ¥millions)

	Segment						Adjustment	Total
	Web Infrastructure & Ecommerce	Internet Media	Internet Securities	Social & Smartphone	Incubation	Total		
Amortization in current term	531	94	647	20	—	1,294	—	1,294
Balance at end of term	1,297	257	1,912	84	—	3,551	—	3,551

Current Accounting Term (01.01.2013 – 12.31.2013)

(Unit: ¥millions)

	Segment						Adjustment	Total
	Web Infrastructure & Ecommerce	Internet Media	Internet Securities	Social & Smartphone	Incubation	Total		
Amortization in current term	494	184	643	18	—	1,341	—	1,341
Balance at end of term	908	921	1,237	602	—	3,670	—	3,670

Data regarding profit arising from negative goodwill by reportable segment

None.

Per Share Data

Item	Previous Consolidated Fiscal Year (01.01.2012 – 12.31.2012)	Consolidated Fiscal Year (01.01.2013 – 12.31.2013)
Shareholders' Equity Per Share	178.86	212.12
Net Profit per Share	38.35	44.51
Net Profit per Share (diluted)	38.32	44.14

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

Item	Previous Consolidated Fiscal Year (01.01.2012 – 12.31.2012)	Consolidated Fiscal Year (01.01.2013 – 12.31.2013)
Net Profit per Share		
Net profit (¥millions)	4,518	5,244
Non-common stock (¥millions)	—	—
Net profit related to common stock (¥millions)	4,518	5,244
Average number of common shares outstanding in the period	117,806,777	117,806,777
Average number of treasury shares in the period	-1,684	-1,744
Average number of shares in the period	117,805,093	117,805,033
Net Profit per Share (diluted)		
Net profit adjustment (¥millions)	-3	-43
Increase in no. of common shares	—	—
Residual securities that do not dilute net profit per share and are not included in the calculation of net profit per share (diluted)	1. The Company 2005 Equity Warrants Common shares: 10,000 2. Consolidated Subsidiaries i. GMO AD Partners, Inc. Stock Options 5th Round Common shares: 197,000 ii. GlobalSign K.K. 2006 Stock Options Common shares: 651 iii. GMO Payment Gateway, Inc. 2004 Stock Options 6th Round Common shares: 28,800 2008 Stock Options 9th Round Common shares: 66,400 2008 Stock Options 10th Round Common shares: 4,600 iv. paperboy&co. Inc. Stock Options 1st Round Common shares: 34,500 v. GMO Research, Inc. 2008 Stock Options 2nd Round Common shares: 90 vi. Epsilon, Inc. 2010 Stock Options Common shares: 196 vii. Social Appli Payment Processing Services, Inc. 2010 Stock Options Common shares: 71	1. The Company 2005 Equity Warrants Common shares: 10,000 2. Consolidated Subsidiaries i. GMO AD Partners, Inc. Stock Options 5th Round Common shares: 193,400 ii. GlobalSign K.K. 2006 Stock Options Common shares: 651 iii. GMO Payment Gateway, Inc. 2004 Stock Options 9th Round Common shares: 30,000 2008 Stock Options 10th Round Common shares: 1,400 iv. paperboy&co. Inc. Stock Options 1st Round Common shares: 17,500 v. GMO Research, Inc. 2008 Stock Options 2nd Round Common shares: 90 vi. Social Appli Payment Service, Inc. 2010 Stock Options Common shares: 71 vii. GMO CLICK Holdings, Inc. Equity Warrants 1st Round Common shares: 1,567,800

Significant Post Balance Sheet Events

None