

Fiscal Year 2014 Consolidated Financial Results (Japanese GAAP)

February 5, 2015

Name of Listed Company: GMO Internet, Inc.

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

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Date of Annual General Shareholders Meeting: March 22, 2015 Start Date of Dividend Payout: March 9, 2015

Date of Annual Report Release: March 23, 2015

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 2014 (01.01.2014- 12.31.2014)

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

	Net Sales		Operating Profit		Ordinary Profit		Net Profit	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
FYE12/2014	109,368	16.7	12,931	17.6	12,734	16.4	5,841	11.4
FYE12/2013	93,704	26.0	11,000	20.2	10,941	19.2	5,244	16.1

(Note) Comprehensive Income: FYE 12/2014 ¥8,578 million (9.2%), FYE12/2013 ¥7,854 million (37.5%)

	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
FYE12/2014	¥ 49.58	¥ 49.03	21.5%	2.8%	11.8%
FYE12/2013	44.51	44.14	22.8	3.1	11.7

(Reference) Earnings/Loss on Equity Method Investment: FYE 12/2014 ¥4 million, FYE 12/2013 ¥85 million

(2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio	Shareholders' Equity per Share
FYE12/2014	¥ millions 483,367	¥ millions 43,876	6.1%	¥ 248.14
FYE12/2013	429,762	36,884	5.8	212.12

(Reference) Shareholders' Equity: FYE 12/2014 ¥29,233 million, FYE 12/2013 ¥24,989 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
FYE12/2014	¥ millions 14,509	¥ millions -5,515	¥ millions 2,759	¥ millions 65,038
FYE12/2013	14,156	-3,851	109	52,823

2. Dividends

	Dividends per Share					Total Dividend Payout	Payout Ratio (Consolidated)	Ratio of Dividends to Total Assets (Consolidated)
	End of Q1	End of Q2	End of Q3	End of Term	Total			
FYE12/2013	¥ 3.00	¥ 3.00	¥ 4.00	¥ 5.00	¥ 15.00	¥ millions 1,761	33.7%	7.7%
FYE12/2014	4.00	4.00	4.00	5.00	17.00	2,002	34.3	7.4
FYE12/2015 (forecast)	6.00	5.00	5.00	5.00	21.00		38.1	

(Note) Dividend Forecast includes ¥2 commemorative "¥100 billion in net sales" dividend.

3. Consolidated Results Forecast for the Year Ending December 2015 (01.01.2015 – 12.31.2015)

(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	121,000	10.6	14,300	10.6	14,300	12.3	6,500	11.3	55.17

(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: 4 companies (GMO Venture Tsushin Startup Support and 3 other companies)

Excluded: 4 companies (Social Appli Payment Service, Inc. and 3 other companies)

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

1. Changes resulting from revisions to accounting policy: none

2. Changes other than those specified above: none

3. Changes in accounting estimates: none

4. Restatements: none

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

1. No. of outstanding shares at end of term
(Including Treasury Stock)

FYE 12/2014	117,806,777	FYE 12/2013	117,806,777
FYE 12/2014	1,811	FYE 12/2013	1,811
FYE 12/2014	117,804,966	FYE 12/2013	117,805,033

2. No. of treasury shares at end of term

3. Average no. of shares during term

(Reference) Summary of Non-Consolidated Financial Results

1. Non-consolidated Results in the Fiscal Year Ended December 2014 (01.01.2014 - 12.31.2014)

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

	Net Sales		Operating Profit		Ordinary Profit		Net Profit	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
FYE12/2014	25,292	19.4	61	-94.4	1,361	-43.6	-891	-
FYE12/2013	21,175	34.2	1,096	-3.2	2,412	-23.3	2,134	-50.8

	Net Profit per Share	Net Profit per Share (Diluted)
	¥	¥
FYE12/2014	-7.56	-
FYE12/2013	18.12	-

(2) Non-consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio	Shareholders' Equity per Share
	¥ millions	¥ millions	%	¥
FYE12/2014	39,726	14,468	36.4	122.81
FYE12/2013	44,109	17,284	39.2	146.72

(Reference) Shareholders' Equity: FYE 12/2014 ¥14,468 million, FYE 12/2013 ¥17,284 million

*Quarterly Results Statement Audit

This results statement is subject to review under the Financial Instruments and Exchange, at the time document 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 2 for details.

Results Presentation for Investors and Analysts: February 5, 2015

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.

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1. Qualitative Information related to Financial Results

(1) Consolidated Operating Results

Overview of Financial Results in the Current Consolidated Accounting Term (FYE12/2014)

(Unit: ¥millions)

	Previous Fiscal Year	Current Fiscal Year	Change	% Change
Net Sales	93,704	109,368	15,664	16.7%
Operating Profit	11,000	12,931	1,930	17.6%
Ordinary Profit	10,941	12,734	1,792	16.4%
Net Profit	5,244	5,841	597	11.4%

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, omni-channel markets and C2C markets. Further, the Internet of Things (IoT) also represents vast new business opportunities. GMO Internet management views any growth in the volume of information available or transactions conducted over the Internet as an opportunity to grow consolidated profits.

Amidst a healthy external environment, the Group operated under the current strategic policy of “strengthening our strengths” and “reinforcing weaker segments with No. 1 products”. In the Internet Infrastructure – one of the Group’s “strengths” - recurring revenue streams provide the foundation for sustained growth. Here we actively invested in marketing and promotion with the objective of building a strong brand. In the Internet Securities segment – another Group “strength” – we were recognized as the world’s largest FX trading platform by transaction volume for the third consecutive year (source: Forex Magnates). In this segment the focus was on expanding customer base by continuing to pursue a cost leadership strategy. The Online Advertising & Media segment moved to accelerate a shift toward a more technology-based business model while focusing on developing proprietary products in response to an evolving external market environment in the online ad space. Finally the Mobile Entertainment business segment internalized all development and operating functions in order to transition toward a cost-controllable structure.

In fiscal year 2014 consolidated Net Sales reached ¥109,368 million (16.7% year-on-year increase), Operating Profit totaled ¥12,931 million (17.6% year-on-year increase), Ordinary Profit totaled ¥12,734 million (16.4% year-on-year increase), and Net Profit was ¥5,841 million (11.4% year-on-year increase). All of these results are record highs.

On a non-consolidated basis, Net Sales grew 19.4% year-on-year to ¥25,292 million, driven by the provider and domain business sub-segments. However, Operating Profit fell 94.4% year-on-year to ¥61 million, impacted by the one-time expense of promotional costs in the provider sub-segment as well as aggressive spending on marketing and promotion in the domain and mobile entertainment businesses. Ordinary profit fell 43.6% to 1,361 million. Extraordinary items included profit earned on the sale of shares in affiliate companies that executed IPOs (¥610 million), while extraordinary losses totaled ¥2,580 million including a ¥2,048 million increase in the bad debt provision against a loan to an affiliate company. As a result, net loss before tax was ¥489 million and after a ¥401 million corporate tax payment, net loss came in at ¥891 million (a net profit of ¥2,134 million was reported in the previous fiscal year).

Net Sales and Operating Profit by Segment in the Fiscal Year 2014

(Unit: ¥millions)

	Previous Fiscal Year	Current Fiscal Year	Change	% Change
Internet Infrastructure				
Net Sales	38,177	46,182	8,004	21.0%
Operating Profit	5,282	4,791	-490	-9.3%
Online Advertising & Media				
Net Sales	31,525	35,309	3,784	12.0%
Operating Profit	1,966	1,636	-330	-16.8%
Internet Securities				
Net Sales	21,431	22,990	1,558	7.3%
Operating Profit	4,778	6,243	1,464	30.7%
Mobile Entertainment				
Net Sales	4,356	6,397	2,040	46.8%
Operating Profit	-1,190	-1,108	82	-
Incubation				
Net Sales	150	1,796	1,619	1,076.9%
Operating Profit	-84	1,013	1,097	--
Adjustment				
Net Sales	-1,938	-3,280	-1,342	-
Operating Profit	248	355	106	-
Total				
Net Sales	93,704	109,368	15,664	16.7%
Operating Profit	11,000	12,931	1,930	17.6%

Please note that the composition of business segments was revised as of the first quarter of this fiscal year. Previous year results below are revised to reflect the new segmentation in order to provide a useful comparison.

i. Internet Infrastructure

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

Domain

In the domain sub-segment, positioned as the entry-point into the segment providing cross-sell opportunities to other Infrastructure products, we continued to actively grow customer base by pursuing a low-cost strategy. New Geographic Top Level Domains, .tokyo, .nagoya and .yokohama were launched and promoted aggressively. Domain registration and renewals grew 13.7% to 4.31 million, and total domains under management rose 15.0% to 4.89 million. Net sales grew 20.8% year-on-year to ¥5,575 million.

Hosting & Cloud

The hosting & cloud business responded to growing sophistication and diversification of client needs through cloud-based, dedicated, shared and VPS offerings under a multi-brand strategy. In the external environment we saw a shift in demand from traditional hosting to cloud-hosting services. GMO AppsCloud, a cloud-based hosting solution optimized for mobile game developers and operators, grew along with general cloud hosting services.

Overall web hosting contracts increased 4.0% over the previous corresponding term to 744 thousand and net sales fell 0.2% year-on-year to ¥13,657 million.

Ecommerce Solutions

The ecommerce solutions business provides SaaS based services for online stores. In an expanding market, this business is focused on growing customer base through enhancement of service functionality. Further, in this sub-segment we actively grew business in the C2C arena, as minne, a marketplace for hand made goods became the number one market in Japan by participation of creators.

At the end of the current quarter, number of paid stores had grown 4.3% year-on-year to 71,000, and total transaction volume grew 15.0% to ¥221.4 billion. Ecommerce solutions reported net sales of ¥4,711 million (46.2% 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. Growth was especially strong in the international market and global certificate issues increased 27.4% to 19.6 thousand.

Security reported net sales of ¥3,476 million (30.4% year-on-year increase), over 65% of sales came from outside of Japan.

Payment

Payment services are operated by GMO Payment Gateway and affiliates and include credit card and other payment gateway services. In the current quarter, focus remained on growing number of merchants, number of transactions and transaction volume, and enhancing value-add offerings aimed at helping merchants build revenues.

Overall number of merchants increased 18.1% over the previous corresponding term to 54 thousand and transaction volume grew 16.6% year-on-year to ¥1.471 trillion. As a result of growth in transaction volume primarily in large-scale stores, sales grew 23.1% year-on-year to ¥7,302 million.

Provider

In the consumer oriented Internet Service Provider business, number of mobile wifi users grew 37.2% to 305 thousand as a result of recent aggressive marketing, and an expanding mobile Internet market. Sales grew 64.6% year-on-year to ¥7,648 million.

Market share was expanded in each of the key Internet Infrastructure businesses in the period under review and overall Net Sales increased a significant 21.0% year-on-year to ¥46,182 million, while Operating Profit decreased 9.3% year-on-year to ¥4,791 million after aggressive investment in promotion of the domain business (approx. ¥560 million) and a one-time expense of promotional costs in the provider business (approx. ¥400 million).

ii. Online Advertising & Media

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

Online Advertising

Online advertising includes media rep and agency business operations comprising a comprehensive line-up of online advertising services. 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 the current fiscal year, effort was concentrated on developing high-profit margin proprietary products, and released DMP service, GMO Private DMP, as well as O2O app builder service, GMO App Capsule. At the same time, structural improvements in the media rep business sought to ensure that the business is able to stand strong against changes in the external environment. Listing and other ad network products, smartphone affiliate advertising, social advertising and reward advertising performed well and DSP and SSP ad optimization services also contributed to revenue. Net sales in online advertising increased 14.1% from the previous year to ¥20,785 million.

Internet Media

This sub-segment provides advertising space on our own media properties as well as Search Engine Optimization (SEO) services. In this segment smartphone apps grew and fashion social app, CoordiSnap and other apps continued to grow user base. Net sales increased 7.7% to ¥12,238 million.

Internet Research and Other Businesses

In this segment, GMO Research provides Internet research services. The company operates an integrated research platform for market research companies. Based on one of Asia's largest research panels, GMO Research continued to grow its business both in Japan and internationally. Net sales grew 14.7% to ¥2,219 million.

Overall, in the Online Advertising & Media segment, net sales totaled ¥35,309 million (12.0% year-on-year increase). Operating profit decreased 16.8% year-on-year to ¥1,636 million as the segment invested in in-house product development and sales promotion.

iii. Internet Securities

The Internet Securities segment continued to pursue a cost leadership strategy and increased number of accounts, customer assets held, and transaction volume. In the current fiscal year, effort remained focused on aggressive marketing and maintaining industry-low spreads.

At the end of the current fiscal year, number of FX accounts had grown 14.3% year-on-year to 534,000, while number of securities accounts grew 16.7% year-on-year to 229,000.

While GMO CLICK Securities FX trading volume was slow in the first half of the year (¥386 trillion, 24.4% year-on-year decrease), sub-segment, market activity picked up in summer during the second half due to a dramatic weakening of the yen (¥533 trillion, 27.3% year-on-year increase), and at the end of the current fiscal year trading volume reached ¥920 trillion (1.1% year-on-year decrease), the highest trading volume globally for the third consecutive year (Source: Forex Magnates).

Overall performance was strong and net sales in the Internet Securities segment totaled ¥22,990 million (7.3% year-on-year increase) and Operating Profit was ¥6,243 million (30.7% year-on-year increase).

iv. Mobile Entertainment

This segment comprises smartphone and online game development and operation. GMO Game Pot joined the Group at the end of the previous year and was consolidated as of this fiscal year.

In the mobile game market, GooglePlay, AppStore and other app markets are growing as usage of smartphone and tablet devices increases.

In the current fiscal year, existing titles including Minerva Knights and Excalibur maintained positions in the Google Play sales rankings. LINE Dream Garden, a partnership with LINE, became an important contributor to the segment.

Overall in the Mobile Entertainment segment, net sales grew 46.8% to ¥6,397 million, and operating loss was ¥1,108 million (¥1,190 million operating loss in the previous corresponding term). Development and operation was internalized to create a cost controllable business structure. Our objective and current challenge in this segment is to develop hit titles that will expand sales in this segment. Going forward, we aim to leverage existing titles to turn the segment profitable as soon as possible.

v. Incubation

The Incubation segment is a venture capital business that invests in expanding business and building enterprise value in Internet-related companies. In the current fiscal year revenue was ¥1,769 million as a result of the sale of shares in a newly listed company and other factors (1,076.9% year-on-year increase), while the segment reported an operating profit of ¥1,013 million (¥84 million operating loss in the previous fiscal year).

Results Forecast for Fiscal Year 2015

The company discloses only a full year consolidated results forecast for the fiscal year 2015. Although the Group has constructed a solid business model, the business environment in the Internet market is subject to rapid change, 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.

The Group's consolidated results forecast for fiscal year 2015 is as below. Despite strategic investment in hand made goods marketplace minne in the ecommerce solutions business and investment in structural reforms in the online advertising business we are still forecasting double-digit profit growth.

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.

Consolidated forecasts for the 2015 fiscal year are as follows.

Consolidated Results Forecast (01.01.2015 – 12.31.2015)

(Unit: ¥millions)

	FYE12/2015	% Change	FYE12/2014
	¥ millions	%	¥ millions
Net Sales	121,000	10.6%	109,368
Operating Profit	14,300	10.6%	12,931
Ordinary Profit	14,300	12.3%	12,734
Net Profit	6,500	11.3%	5,841

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

(Unit: ¥millions)

	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Net Sales	23,710	27,026	25,427	27,455	29,458
Operating Profit	2,386	2,255	2,709	3,599	4,367
Ordinary Profit	2,392	2,240	2,695	3,528	4,270
Net Profit	1,487	945	1,777	1,248	1,868
Total Assets	429,762	423,991	425,483	471,724	483,367
Shareholders' Equity	24,989	25,111	26,350	27,543	29,233

(Reference) Quarterly Results by Segment

(Unit: ¥millions)

I Net Sales by Segment

	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Internet Infrastructure					
Provider (ISP)	1,450	1,629	1,857	2,067	2,094
Domain	1,186	1,428	1,421	1,351	1,374
Hosting & cloud	3,450	3,422	3,378	3,418	3,436
Ecommerce solutions	853	1,192	1,123	1,232	1,163
Security	716	803	901	724	1,048
Payment	1,601	1,797	1,774	1,833	1,896
Other	693	966	976	888	978
Total	9,950	11,240	11,434	11,515	11,991
Online Advertising & Media					
Online advertising	4,744	5,509	4,696	4,906	5,739
Internet media	2,740	3,029	3,023	3,045	3,139
Other	558	569	514	515	619
Total	8,043	9,107	8,234	8,467	9,498
Internet Securities					
Total	5,054	5,553	4,792	5,657	6,986
Mobile Entertainment					
Total	1,113	1,710	1,659	1,541	1,485
Incubation					
Total	5	16	4	1,261	487
Sub total	24,166	27,629	26,125	28,445	30,448
Adjustment	-456	-602	-698	-989	-990
Net Sales	23,710	27,026	25,427	27,455	29,458

II Operating Profit by Segment

	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Internet Infrastructure	1,352	998	1,365	1,154	1,283
Online Advertising & Media	267	500	399	380	354
Internet Securities	1,184	1,422	1,059	1,291	2,469
Mobile Entertainment	-326	-695	-126	-177	-108
Incubation	-104	-29	-69	829	281
Sub total	2,372	2,186	2,629	3,479	4,279
Adjustment	13	68	79	119	87
Operating Profit	2,386	2,255	2,709	3,599	4,367

(Reference) Description of businesses in each segment

Business Segment		Main Operations
Internet Infrastructure	Domain	<ul style="list-style-type: none"> • Domain name (.com, .net, .jp, .tokyo, .nagoya, .yokohama etc.) registration services, Onamae.com, MuuMuu Domain, VALUE DOMAIN and others.
	Hosting & Cloud	<ul style="list-style-type: none"> • Provision, operation, management, and maintenance of dedicated, shared, VPS and cloud-based web hosting services including Onamae Rental Server, GMO Apps Cloud, ConoHa by GMO, GMO CLOUD VPS, GMO CLOUD ALTUS, GMO CLOUD Private, Lolipop, heteml, Sqale and 30-days Album.
	Ecommerce Solutions	<ul style="list-style-type: none"> • SaaS based services for online store building including Color me shop! and MakeShop, and Jugem Cart. • Development and operation of online shopping mall, Calamel. • Operation of online market, for handmade goods, minne • Operation of O2O ecommerce support service GMO AppCapsule • Web design, operational support and system consulting
	Security	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Payment processing services including PC Multi-Payment Service for ecommerce and credit card payment processing services for government
	Provider (ISP)	<ul style="list-style-type: none"> • GMO TokuToku BB, interQ, MEMBERS, ZERO, and other access provider services
Online Advertising & Media	Online advertising	<ul style="list-style-type: none"> • Comprehensive online advertising services including listing, mobile, ad network, reward and affiliate advertising • Advertising design
	Internet media	<ul style="list-style-type: none"> • 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 Network Ad distribution to owned & operated media and targeted text ads. • Operation of daily deals website Kumapon by GMO
	Internet research	<ul style="list-style-type: none"> • Provision of Internet research systems, management and operation of online research panel, GMO Research Cloud Panel
Internet Securities	Internet securities	<ul style="list-style-type: none"> • Operation of online securities trading, foreign currency trading services etc.
Mobile Entertainment	Mobile entertainment	<ul style="list-style-type: none"> • Smartphone game development and operation • Online game development and operation
Incubation	Venture capital	<ul style="list-style-type: none"> • Investment in private Internet ventures.

(2) Analysis of Financial Condition

Assets, Liabilities and Shareholders' Equity

Assets

At the end of fiscal year 2014 (December 31, 2014), assets had increased ¥53,604 million (12.5%) from the end of the previous fiscal year to ¥483,367 million. Contributing factors included a ¥12,066 million (21.0%) increase in cash, and a ¥37,958 million (11.5%) rise in customer assets in the securities segment (securities segment deposits, margin transaction assets, short term deposits and variation margin paid).

Liabilities

At the end of the current fiscal year, liabilities had increased ¥46,612 million (11.9%) from the end of the previous fiscal year to ¥439,491 million. Fluctuations in liabilities are chiefly attributable to a ¥33,487 million (10.4%) 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 ¥3,159 million (17.2%) 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 totaled ¥5,644 million (23.2% increase).

Net Assets

At the end of fiscal year 2014 net assets had increased ¥6,992 million (19.0%) from the end of the previous fiscal year to ¥43,876 million. Fluctuations in net assets were chiefly attributable to a ¥3,682 million (23.4%) increase in earnings surplus, an increase in minority equity of ¥2,748 million (23.1%) driven by profit increases in consolidated subsidiaries (an increase in net profit of ¥5,841 million, and a decrease in dividends paid of ¥2,002 million).

Cash Flow

At the end of fiscal year 2014 (December 31, 2014), cash and equivalents had increased ¥12,214 million (23.1%) from the end of the previous fiscal year to ¥65,038 million. The following is a summary of cash flow activity in the period under review.

Cash Flow from Operating Activities

Operating activities generated ¥14,509 million (¥14,156 million was generated in the previous corresponding term). Major items included net profit before tax and other adjustments (¥12,575 million), depreciation (¥4,487 million), goodwill amortization (¥1,635 million), and an increase in customer assets in the securities segment (increase in deposits, increase in guarantee deposits, increases in variation margin paid and received, and increases in margin trading assets and liabilities) totaling ¥4,470 million, and a ¥3,561 million outflow due to corporate tax payments etc.

Cash Flow from Investing Activities

Outflow from investing activities total ¥5,515 million (¥3,851 million outflow in the previous corresponding term). Contributing factors chiefly included acquisition of consolidated subsidiary Ubisecure Solutions, Inc. (¥1,020 million) acquisition of server equipment and other fixed assets (¥804 million) software license updates, acquisition of the rare, one-character domain name, z.com and other intangible fixed assets (¥2,593 million), acquisition of investment securities mainly in the payment business (¥718 million), and a fixed term deposit (¥750 million), as well as income from the acquisition and sale of subsidiary stock (¥425 million) and investment securities (¥285 million).

Cash Flow from Financing Activities

Inflow from financing activities totals ¥2,759 million (¥109 million in the previous corresponding term). Significant inflows included an increase in transactions using shareholder benefits in the Securities segment, at the end of December resulting in increased liquidity on hand, and a net increase (¥5,618 million) in interest bearing

liabilities (short-term debt increase and long-term loan repayment) and income from the sale of a shares in newly listed subsidiaries (¥1,095 million). Major outflows included dividend payments (¥2,015 million) and dividend payments to minority shareholders (¥603 million).

(Reference) Cash Flow Indicators

	FYE12/2010	FYE12/2011	FYE12/2012	FYE12/2013	FYE12/2014
Shareholders' Equity Ratio (%)	5.2	9.0	7.6	5.8	6.1
Shareholders' Equity Ratio (Market Value) (%)	24.7	16.9	23.8	37.8	25.0
Ratio of Cash Flow to Interest Bearing Liabilities	2.8	1.8	1.9	1.9	2.1
Interest Coverage Ratio	30.4	42.9	41.4	42.8	49.7

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 ¥17 per share in the current term (34.3% payout ratio) and ¥21 per share in the following term, inclusive of a ¥2 commemorative dividend celebrating surpassing ¥100 billion in net sales (38.1% payout ratio).

(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. Internet Infrastructure comprising chiefly of domain, hosting & cloud, ecommerce solutions, security, payment and provider businesses, 2. Online Advertising & Media consisting of the online advertising, Internet media and Internet research businesses, 3. Internet Securities and 4. Mobile Entertainment comprising smartphone game and online game

development and operation. 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 business partnerships or 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 material impact on business operations and performance.

ii. Innovation in Technology

The progress of Internet related technology is rapid and subsequently industry standards and customer needs are constantly changing. As a result new services, 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 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 make every effort to widely publicize the relevant laws and ordinances. We have also independently established our own regulations prohibiting the distribution of illegal and harmful information on the Internet. However, there is no guarantee that these measures will be sufficient to prevent a user, 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 email 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 could be restricted by these laws.

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

Enacted in 2002, these laws aim to encourage a sound environment for email use. Requirements of the law such as an obligation for the sender to include contact details in certain types of mails, were introduced to curb the nuisance of spam-mail distribution.

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

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

(g) Act on the Protection of Personal Information

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

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

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

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

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

Under this 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 conduct of fund transfer services, to protect consumers, to foster the provision of such services, and to improve the security, efficiency and convenience of fund settlement systems.

Companies that issue 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 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. When a business operator is entering into a written contract relating to their business they must include special anti-gang clauses. Regulations place obligation on businesses. The Group strives to conduct evaluations of contract parties, provide a written pledge that they are not gangs and provide special clauses. However, if inquiries to the police and anti-gang agencies prove insufficient and the Group unintentionally enters into a transaction or other agreement with a gang – if it becomes necessary to break important contracts or consider compensation there could be material impact on the management and earnings of the Group or damage to public trust in the Group.

ii. The Possibility of Litigation

The group operates services including provision of Internet infrastructure such as web hosting and domain names. As a provider of a wide range of information, products and services via the Internet in ecommerce, finance and other industries it is essential the Group operate stable infrastructure. The company strives to provide reliable services and systems. We have an uninterruptible power supply system, backup systems etc. that allow us to provide management, maintenance and customer support services 24 hours a day, 365 days a year to respond to any problems that may arise. However, as a result of damages 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 smartphone game and daily deal (Kumapon) businesses were also established. In order to avoid confusion or the misunderstanding that the Group is the originator of the products and services sold or advertised via these service, or products and services that are sold via daily deal coupons, the Terms of Use of the above services require the service 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.

III. Risks associated with Business Activities Abroad

The Group's security business (issue of digital certificates etc.), smart phone game business, payment business, domain 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.

IV. Risks by Sub-segment

(1) Web Infrastructure & Ecommerce

i. Domain registration

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

ii. Hosting & Cloud

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

iii. Ecommerce

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

iv. Security

This is a high-growth market, but 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. (See VII(ii) Exchange rate risks).

v. Payment

This is also a high-growth market, driven by growth in the ecommerce arena. 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 failure could impact service provision and be damaging to brand trust - and this could negatively impact consolidated operating results.

vi. Internet Provider

In the Internet provider business, the Group purchases and resells products from telecommunications companies. As demand for mobile Internet grows, competition for customer acquisition is increasing. Changes to supplier agreements or contract conditions, or greater uptake than expected of cashback campaigns and other promotions could negatively impact results in this business.

(2) Online Advertising & Media

i. Online Advertising

a. Market Trends

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

b. Competition

The Internet Advertising market is a competitive space and as the market grows, participation is expected to increase. The Group'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.

ii. Internet Media

a. Market Trends

The Group operates Internet Media and content and services provided via smartphone apps, and aims to expand customer base by building on existing services and developing new services. However, if the Group is unable to provide content attractive to users, operating results may be impacted.

b. Google

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

iii. Internet Research

a. Market Trends

In the Japanese Internet Research market, customers demand light, low-cost services. The company's business plan seeks to expand the Japanese market by transitioning users of traditional market research methods to online research while also activating new customers who have not previously undertaken market research. However, if market growth is not in line with the Group's expectations operating results and business operations may be impacted.

b. Competition Trends

Entry barriers to the online research market are not high, and we expect to see new players participating. We seek to differentiate our service by expanding our research panel and establishing strategic partnerships with other research panels, however if competition in the market intensifies, and our own services lose competitive edge, operating results may be impacted.

(3) Risks associated with the Internet 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 or 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, 2014 GMO CLICK Securities' capital adequacy ratio was at 350.4%, and FX PRIME by GMO at 626.9% - 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.

iv. Market Risks

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.

v. Computer Systems

The majority of GMO CLICK Securities and FX PRIME by GMO transactions occur over the respective companies' 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 including AppStore and Google Play. Commission is paid to Apple and Google for revenue earned via these platforms. Any increase in these commissions could impact earnings.

V Reliance on Chief Executive Officer

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

VI Human Resource Risks

The most important resource the Group has is its human resources. Recruiting and development of staff is essential to both new service development and to ensuring quality of existing services. If competition human resource acquisition intensifies and it becomes difficult to attract staff or if we lose key staff to other companies, business performance may be impacted.

VII Risks related to Intangible Assets

i. Intellectual property risks

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

ii. Brand Risks

The Group has made a significant investment in establishing the "GMO" 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.

VIII Capital Market Risks

i. Interest Rate Fluctuation Risks

The Group predominantly procures business funding in the form of loans from financial institutions. As of the end of

December 2014, consolidated interest-bearing liabilities stood at ¥30,001 million. The Group conducts interest rate swap transactions against part of its interest-bearing debt in order to stabilize interest rates and manage exposure to fluctuations. However, it is conceivable that financial market movements could impact Group performance.

ii. Exchange Rate Risks

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

IX Capital Procurement Risks

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

X System Risks

The Group specializes in an extensive range of Internet services and relies on outside sources for certain critical business functions such as Internet connectivity and data center maintenance and management. 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.

XI Risks associated with Internal Controls

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

XII. Natural Disaster Risks

Earthquakes, tsunamis, typhoons, bad weather, power outages, fire, disease, radioactive contamination, intense solar storms, meteorite showers and other natural disasters could impact the Group's business operation or continuity. Further, political change, war, acts of terrorism, coup, 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 78 consolidated subsidiaries. The following table shows the business areas included in each segment and the group companies operating in each business area.

Business Segment		Main Operations	Main Companies
Internet Infrastructure	Domain	Domain registration	GMO Internet, Inc. GMO Pepabo Inc. GMO DigiRock, Inc.
	Hosting & Cloud	Cloud-based and traditional hosting	GMO Internet, Inc. GMO CLOUD, Inc. GMO Pepabo 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 Pepabo Inc. GMO MAKESHOP, Inc. GMO Commerce, Inc. GMO SystemConsulting, Inc. GMO Fast Translation, Inc.
	Security	SSL certificate issue	GlobalSign K.K. GMO GlobalSign Ltd. GMO GlobalSign NV and 6 other companies Ubisecure Solutions, Inc.
	Payment	Payment and ancillary services	GMO Payment Gateway, Inc. GMO Epsilon, Inc.
	Provider (ISP)	Internet access provider	GMO Internet, Inc.
	Other businesses	Other	GMO Digital Lab, Inc.
Online Advertising & Media	Online advertising	Comprehensive online ad services including listing, mobile, ad network, reward, and affiliate advertising	GMO AD Partners, Inc. GMO TECH, Inc. GMO NIKKO, Inc. GMO Mobile, Inc. GMO Innovators, Inc
	Internet Media	Internet media development and operation, SEM media development	GMO Internet, Inc. GMO AD Partners, Inc. GMO TECH, Inc. GMO Pepabo Inc. GMO Media, Inc. JWord, Inc. GMO Solution Partner, Inc. Booklog, Inc. GMO Kumapon, Inc.
	Internet Research & Other Business	Internet research business	GMO Research, Inc.
Internet Securities	Internet securities	Operation of online securities trading, FX trading services etc.	GMO CLICK Securities, Inc. FX Prime by GMO Corporation GMO CLICK HONG KONG LIMITED
Mobile Entertainment	Mobile Entertainment	Smartphone and online game development and operation	GMO Internet, Inc. GMO GameCenter, Inc. GMO GamePot, 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 Services, the Group is focused on the provision of Internet infrastructure and services. The Group strives to inspire our customers and make them smile as well as to make a contribution to society through the cultivation of Internet culture and development of the industry.

(2) Management Objectives and Indicators

GMO Internet Group is committed to growing profits. The group considers the ratio of sales to 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 disclosures regarding mid-term objectives however we are continuously aiming for further improvement.

(3) Medium to Long-Term Business Strategies

The Group's Internet Infrastructure, Online Advertising & Media, Internet Securities, and Mobile Entertainment business segments operate under the corporate slogan Internet for Everyone.

In each of the four segments the Group aims to maintain a solid stable of number one products and aim to be Japan's Leading All-in Provider of Internet Services .

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

1. Group Strategy

(i) Fostering group synergy

The Group is comprised of 78 consolidated subsidiaries and is structured such that each company retains autonomous decision-making power. This is important in order to be able to act with speed and agility in the constantly evolving Internet market. At the same time, we aim to ensure that the Group shares a common vision, to generate and leverage synergies within the Group, and to ensure the efficient use of resources.

Going forward we will continue striving to improve Group management efficiency and cultivate synergy between business segments in order to ensure the most effective usage of management resources.

(ii) Global growth

The Group is actively expanding global business in Security and other areas. We believe it is important to establish a position as an "All-in Provider of Internet Services" globally in order to expand into toward high-growth international markets.

In the current fiscal year we acquired one-character domain name, z.com as the Group's global brand with the objective of establishing a business platform in the global market and accelerate global expansion in the Internet Infrastructure and Securities segments.

2. Business Strategy

(i) Internet Infrastructure

In this segment the Group's services provide a business platform for online businesses. Products and services are developed in-house to enable us to best meet customer needs. The segment provides a strong revenue base for the Group and the majority of revenue is recurring. Going forward, the Group aims to continue improving customer satisfaction by expanding services for smartphone and other mobile devices while improving operations and support.

(ii) Online Advertising & Media

In response to changes in the market environment, the Group is working on strengthening ad technology and developing proprietary products. In the current fiscal year we released our own data management platform, GMO Private DMP, and O2O app builder service, GMO AppCapsule. Going forward we aim to accelerate the technology shift in the segment, focusing on smartphone advertising and app development with the objective of producing number 1 products.

(iii) Internet Securities

In the Internet Securities segment we have built a highly cost-effective business with all systems development, operation and maintenance is carried out in-house. The segment operates under a cost-leadership strategy and is currently actively expanding customer base in global markets. This year we were named the world's largest FX provider by trading volume for the third consecutive year.

(iv) Mobile Entertainment

In the smartphone game market, development capability has become increasingly important as the market evolves. In the previous fiscal year GMO Game Pot was acquired and became a consolidated subsidiary with the objective of combining the development capabilities of the company with the Group's existing operational expertise to concentrate on developing native games and producing a hit title.

3. Technology Development

As discussed under business risks, Internet technology is always evolving and the market is highly competitive. Management must constantly ensure that the Group is developing cost competitive services that take advantage of leading technology. Key to this effort is maintaining a strong, knowledgeable technical workforce. The Group considers its engineers and creators to be a vital resource and places a high priority on recruitment, retention and training of staff.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2013)	Current Fiscal Year (As of Dec 31, 2014)
Assets		
Current Assets		
Cash and deposits	57,481	69,548
Trade notes and accounts receivable	8,420	9,587
Operational investment securities	843	1,415
Securities segment deposits	196,553	227,981
Securities segment margin transaction assets	96,406	94,522
Securities segment short term guarantee deposits	22,691	30,378
Securities segment variation margin paid	14,584	15,311
Deferred tax asset	3,016	1,967
Other	8,322	11,035
Provision for doubtful debts	-473	-482
Total Current Assets	407,848	461,267
Fixed Assets		
Tangible fixed assets		
Buildings and structures (net amount)	1,272	1,297
Tools and equipment (net amount)	2,172	2,117
Lease assets (net amount)	4,647	3,706
Other (net amount)	399	406
Total tangible fixed assets	8,491	7,527
Intangible fixed assets		
Goodwill	3,670	3,946
Software	4,070	4,258
Other	587	1,225
Total intangible fixed assets	8,327	9,431
Investments and other assets		
Investment securities	1,887	2,366
Deferred tax asset	1,452	848
Other	2,026	2,269
Provision for doubtful debts	-271	-343
Total investments and other assets	5,095	5,141
Total Fixed Assets	21,914	22,100
Total Assets	429,762	483,367

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2013)	Current Fiscal Year (As of Dec 31, 2014)
Liabilities		
Current liabilities		
Trade notes and accounts payable	3,152	4,123
Short term debt	10,200	19,114
Current portion of long term debt	3,247	3,194
Amount payable	7,165	8,380
Securities segment deposits received	28,127	30,175
Securities segment margin transaction liability	82,134	83,811
Securities segment guarantees received	206,848	232,637
Securities segment variation margin received	6,205	10,180
Accrued corporate tax etc.	1,134	1,424
Provision for bonuses	405	315
Provision for bonuses to directors	200	209
Provision for customer acquisition promotion	707	946
Advance payment received	3,788	4,381
Deposits received	18,321	21,480
Other	4,930	6,640
Total Current Liabilities	375,862	426,068
Fixed Liabilities		
Long term debt	10,910	7,692
Tax liability carried forward	38	80
Other	4,618	3,682
Total Fixed Liabilities	15,567	11,454
Statutory Reserve		
Financial instruments transaction liability reserve	1,449	1,967
Total Statutory Reserve	1,499	1,967
Total Liabilities	392,878	439,491
Net Assets		
Shareholders' Equity		
Capital stock	100	100
Capital reserve	8,736	8,736
Earned surplus	15,765	19,448
Treasury stock	-0	-0
Total Shareholders' Equity	24,600	28,283
Other Comprehensive Income		
Other securities valuation differences	53	256
Hedging profit/loss carried forward	-50	-10
Currency translation account	385	703
Total Other Comprehensive Income	388	949
Equity Warrants	19	20
Minority Equity	11,875	14,623
Total Net Assets	36,884	43,876
Liabilities, Net Assets Total	429,762	483,367

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

Consolidated Profit & Loss Statement

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2013-12.31.2013)	Current Fiscal Year (01.01.2014-12.31.2014)
Net Sales	93,704	109,368
Cost of Sales	41,199	50,830
Gross Profit on Sales	52,504	58,537
Sales, General & Administrative Expenses	41,503	45,605
Operating Profit	11,000	12,931
Non Operating Revenue		
Interest received	7	13
Dividends received	31	46
Currency translation gain	43	47
Equity method investment gain	85	4
Expired points gain	88	81
Other	185	175
Total Non Operating Revenue	442	368
Non Operating Expenses		
Interest paid	329	294
Depreciation expense	34	72
Other	137	198
Total Non Operating Expenses	501	565
Ordinary Profit	10,941	12,734
Extraordinary Profit		
Gain on sale of investment securities	652	43
Gain on sale of stock in subsidiaries and affiliates	196	441
Gain on change in equity investees	17	1,313
Other	39	105
Total Extraordinary Profit	905	1,903
Extraordinary Loss		
Impairment loss	581	1,260
Provision for securities transaction liability reserve	620	518
Other	284	284
Total Extraordinary Loss	1,486	2,062
Net Profit before Adjustment for Tax etc.	10,360	12,575
Corporate, Municipal and Enterprise Taxes	2,900	3,093
Corporate Tax etc. Adjustment	496	1,571
Total Corporate Taxes etc.	3,397	4,665
Net Profit before Minority Interests	6,963	7,910
Minority Interests	1,719	2,069
Net Profit	5,244	5,841

Other Comprehensive Income

(¥millions)

	Previous Fiscal Year (01.01.2013-12.31.2013)	Current Fiscal Year (01.01.2014-12.31.2014)
Net Profit before Minority Equity Adjustment	6,963	7,910
Other Comprehensive Income		
Other securities valuation differences	302	410
Hedging profit/loss carried forward	1	10
Currency translation adjustment account	587	217
Total other comprehensive income	891	668
Comprehensive Income	7,854	8,578
(Breakdown)		
Comprehensive income attributable to parent company shareholders	5,906	6,401
Comprehensive income attributable to minority shareholders	1,948	2,177

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

Previous Accounting Term (01.01.2013 – 12.31.2013)

(Unit: ¥millions)

	Shareholder's 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	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

Current Accounting Term (01.01.2014 – 12.31.2014)

(Unit: ¥millions)

	Shareholders' Equity				
	Capital	Capital Reserve	Earned Surplus	Treasury Stock	Total Shareholders' Equity
Beginning balance	100	8,736	15,765	-0	24,600
Changes during term					
Dividends			-2,002		-2,002
Net Profit			5,841		5,841
Acquisition of treasury stock					
Decrease in Earned Surplus due to increase in consolidated subsidiaries			-155		-155
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)					
Total changes during term	-	-	3,682	-	3,682
Balance at end of current term	100	8,736	19,448	-0	28,283

(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	53	-50	385	388	19	11,875	36,884
Changes during term							
Dividends							-2,002
Net Profit							5,841
Acquisition of treasury stock							
Decrease in Earned Surplus due to increase in consolidated subsidiaries							-155
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)	202	40	317	560	0	2,748	3,309
Total changes during term	202	40	317	560	0	2,748	6,992
Balance at end of current term	256	-10	703	949	20	14,623	43,876

(Unit: ¥millions)

	Previous Fiscal Year (01.01.13-12.31.13)	Current Fiscal Year (01.01.14-12.31.14)
Cash Flow from Operating Activities		
Net Profit before tax etc.	10,360	12,575
Depreciation expenses	4,486	4,487
Impairment loss	581	1,260
Amortization of goodwill	1,341	1,635
Change in equity investees (- represents decrease)	-17	-1,306
Change in provision for doubtful debts (-represents decrease)	-64	79
Change in financial instruments transaction liability reserve (-represents decrease)	620	518
Change in provision for bonuses (- represents decrease)	20	-81
Interest and dividends received	-39	-59
Interest paid	329	294
Gain or loss on sale of investment securities (- represents gain)	-647	-43
Gain or loss on sale of stock in subsidiaries and affiliates (- represents gain)	-196	-441
Change in accounts receivable (-represents increase)	-1,198	-408
Change in purchase debts (- represents decrease)	532	40
Change in amount payable (- represents decrease)	1,003	1,944
Change in deposits received (- represents decrease)	5,166	3,151
Change in deposits in securities segment (- represents increase)	-73,638	-31,428
Change in short term guarantee deposits in securities segment (-represents increase)	-4,867	-7,687
Change in margin variation paid and received in securities segment	-2,208	3,247
Changes in deposits and guarantees received in securities segment (- represents decrease)	87,113	27,837
Changes in margin trading assets and liabilities	-8,913	3,560
Other	-1,926	-873
Sub total	17,838	18,303
Interest and dividends received	41	59
Interest paid	-330	-291
Corporate tax etc. paid	-3,393	-3,561
Cash Flow from Operating Activities	14,156	14,509
Cash Flow from Investing Activities		
Payment of fixed term deposit	-900	-750
Income from return of fixed term deposit	100	-
Expenditure on acquisition of tangible fixed assets	-1,425	-804
Expenditure on acquisition of intangible fixed assets	-1,460	-2,593
Expenditure on acquisition of investment securities	-622	-718
Income accrued on sale of investment securities	1,395	285
Expenditure on acquisition of subsidiary stock	-489	-61
Income accrued on sale of subsidiary stock	—	425
Income accrued on the acquisition of subsidiary stock resulting in change in scope of consolidation	73	-
Expenditure on the acquisition of subsidiary stock resulting in change in scope of consolidation	-717	-1,020
Expenditure on transfer of business	-10	-46
Other	205	-231
Cash Flow from Investing Activities	-3,851	-5,515

(Unit: ¥millions)

	Previous Fiscal Year (01.01.13-12.31.13)	Current Fiscal Year (01.01.14-12.31.14)
Cash Flow from Financing Activities		
Income accrued on short term loans	118,410	168,774
Expenditure on repayment of short term loans	-111,910	-159,871
Income accrued on long term loans	2,000	7
Expenditure on repayment of long term loans	-5,393	-3,292
Repayment of finance lease and installment obligations	-1,670	-1,820
Income from investment partnership	1,000	510
Expenditure on repayment to investment Partner	-213	-25
Revenue accrued from minority interests	87	1,095
Payment of dividends	-1,649	-2,015
Payment of dividends to minority Shareholders	-551	-603
Cash Flow from Financing Activities	109	2,759
Currency Translation Adjustment on Cash and Equivalents	452	342
Change in Cash and Equivalents (- represents decrease)	10,866	12,094
Balance of Cash and Equivalents at Beginning of Term	41,899	52,823
Increase in Cash and Equivalents following Increase in Consolidation	57	119
Balance of Cash and Equivalents at End of Term	52,823	65,038

(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: 78 (including 4 partnerships)

Names of significant consolidated subsidiaries

GMO AD Partners, Inc.

GMO CLOUD, Inc.

GMO PaymentGateway, Inc.

GMO Pepabo Inc.

GMO CLICK Securities, Inc.

GMO Tech, Inc.

GMO Research, Inc.

FX PRIME by GMO Corporation

The following companies were added to the consolidation during the current fiscal year: Ubisecure Solutions, Inc. was acquired, GMO GlobalSign Inc. (Philippines) and 1 other company increased in significance to the consolidation, GMO Venture Tsushin Startup Support Co. Ltd., GMO CLICK Bullion Limited, GMO DATA CENTER KOREA, Inc. and 1 other company was newly established.

The following companies were excluded from the consolidation during the current term for the following reasons: Social Appli Payment Service, Inc. after entire holdings were sold, and GMO Searchteria, Inc. GMO China Concierge, Inc. and 1 other company were absorbed by a GMO Internet consolidated subsidiary.

(2) Names of significant non- consolidated subsidiaries

Patent Incubation Capital, Inc.

Reasons for exclusion from the consolidation

All 29 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: 2

Names of significant equity method affiliates:

SuperAppli, Inc.

Tri's Digital Base, Inc. was dissolved and no accounted for as an equity method affiliate.

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

Patent Incubation Capital, Inc.

The net profit and loss (equal to the equity share), and earned surplus (equal to the equity share), etc. of each of the 29 non-consolidated subsidiaries and 6 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 7 other companies

Close of fiscal year: May 31

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 as required to reflect 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

Market value method (salable value determined by moving average method)

Bonds held to maturity

Amortized cost (straight-line) method

Other marketable securities (including operating investment securities)

Securities with a market value:

Stated at actual market value on the closing day of the fiscal term. All valuation differences are included directly in net assets. The salable value is determined by the moving average method.

Securities with no market value:

Stated at cost determined by the moving average method

(ii) Derivatives transactions

Market value method

(2) Depreciation of major depreciable assets

(i) Tangible fixed assets (excluding lease assets)

Fixed rate method.

Useful life

Buildings and structures: 3-22 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.

(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 instrument: foreign exchange contracts

Hedged items: foreign currency debt, foreign currency forecast transactions

b) Hedging Instrument: 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 is amortized over 5 years using the straight-line method.

(6) Scope of the Consolidated Cash Flow Statement

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

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

(i) Accounting treatment of consumption tax etc.

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

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

(ii) Accounting treatment of foreign exchange margin transactions

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

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

In addition, customer assets (deposits) 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 in Method of Presentation

Consolidated Profit and Loss Statement

In the previous fiscal year, Commissions Paid was reported as a separate component of Non-Operating Expenses. In the current fiscal year Commissions Paid accounted for less than one tenth of Non-Operating Expenses and as a result was moved to the “Other” line item. Depreciation, included in the “Other” line item under Non-Operating Expenses in the previous fiscal year, increased to more than one tenth of total Non-Operating Expenses and is therefore reported as a separate component in the current fiscal year. Previous fiscal year figures have been revised to the current presentation. As a result the Commission Paid amount (¥64 million) , and the Other amount (¥107 million) on the Consolidated Profit and Loss Statement in the previous fiscal year have been revised to Depreciation (¥34 million) and Other (¥137 million) in the current fiscal year.

Segment Data

Segment Data

1. Overview of Reportable Segments

(1) Method of determining Reportable Segments

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

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

The Internet Infrastructure segment provides services that comprise the fundamental infrastructure for customers with online businesses. Services include domain, hosting & cloud, Internet security, ecommerce solutions, and payment. The Online Advertising & Media segment provides marketing solutions for customers with online businesses, and includes online advertising, Internet media and Internet research sub-segments. The Internet Securities segment operates online securities and foreign exchange trading services. The Mobile Entertainment segment develops and operates smartphone games and online games. The Incubation segment invests primarily in unlisted Internet related businesses.

(2) Notes regarding Changes to Reportable Segments

The following changes have been made to reportable segments following a revision of operational structure within the Group.

The five business segments Web Infrastructure & Ecommerce, Internet Media, Internet Securities, Social & Smartphone, and Incubation have been renamed as of the first quarter to Internet Infrastructure, Online Advertising & Media, Internet Securities, Mobile Entertainment, and Incubation. The Daily Deals sub-segment, formerly reported as part of the Social & Smartphone segment, is now reported under Online Advertising & Media. Segment data for the previous fiscal year is presented under “3. Notes regarding revenue, profit or loss, assets and liabilities in reportable segments” using the new structure

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 (01.01.2013 – 12.31.2013)

(Unit: ¥millions)

	Segment						Adjustment	Total
	Internet Infrastructure	Online Advertising & Media	Internet Securities	Mobile Entertainment	Incubation	Total		
Net Sales								
Sales to unaffiliated customers	37,594	30,176	21,431	4,351	150	93,704	—	93,704
Internal transactions and transfers	583	1,349	—	5	—	1,938	-1,938	—
Total	38,177	31,525	21,431	4,356	150	95,642	-1,938	93,704
Operating profit/loss (-)	5,282	1,966	4,778	-1,190	-84	10,752	248	11,000
Other items								
Depreciation expenses	2,430	255	1,204	595	—	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.

Current Accounting Term (01.01.2014 – 12.31.2014)

(Unit: ¥millions)

	Segment						Adjustment	Total
	Internet Infrastructure	Online Advertising & Media	Internet Securities	Mobile Entertainment	Incubation	Total		
Net Sales								
Sales to unaffiliated customers	45,396	32,839	22,990	6,373	1,769	109,368	—	109,368
Internal transactions and transfers	786	2,470	0	24	—	3,280	-3,280	—
Total	46,192	35,309	22,990	6,397	1,769	112,649	-3,280	109,368
Operating profit/loss (-)	4,791	1,636	6,243	-1,108	1,013	12,576	355	12,931
Other items								
Depreciation expenses	2,596	305	903	682	0	4,487	-	4,487

(notes) 1. The segment profit adjustment (¥355 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 (01.01.2013 – 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.

Current Accounting Term (01.01.2014 – 12.31.2014)

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 (01.01.2013 – 12.31.2013)

(Unit: ¥millions)

	Segment						Adjustment	Total
	Internet Infrastructure	Online Advertising & Media	Internet Securities	Mobile Entertainment	Incubation	Total		
Impairment loss	50	0	44	485	—	581	—	581

Current Accounting Term (01.01.2014 – 12.31.2014)

(Unit: ¥millions)

	Segment						Adjustment	Total
	Internet Infrastructure	Online Advertising & Media	Internet Securities	Mobile Entertainment	Incubation	Total		
Impairment loss	323	127	-	809	—	1,260	—	1,260

Data regarding goodwill amortization and unamortized balance by reportable segment
 Previous Accounting Term (01.01.2013 – 12.31.2013)

(Unit: ¥millions)

	Segment						Adjustment	Total
	Internet Infrastructure	Online Advertising & Media	Internet Securities	Mobile Entertainment	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

Current Accounting Term (01.01.2014 – 12.31.2014)

(Unit: ¥millions)

	Segment						Adjustment	Total
	Internet Infrastructure	Online Advertising & Media	Internet Securities	Mobile Entertainment	Incubation	Total		
Amortization in current term	486	369	638	140	—	1,635	—	1,635
Balance at end of term	1,811	1,078	582	474	—	3,946	—	3,946

Data regarding profit arising from negative goodwill by reportable segment

None.

Per Share Data

Item	Previous Consolidated Fiscal Year (01.01.2013 – 12.31.2013)	Consolidated Fiscal Year (01.01.2014 – 12.31.2014)
Shareholders' Equity Per Share	212.12	248.14
Net Profit per Share	44.51	49.58
Net Profit per Share (diluted)	44.14	49.03

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

Item	Previous Consolidated Fiscal Year (01.01.2013 – 12.31.2013)	Consolidated Fiscal Year (01.01.2014 – 12.31.2014)
Net Profit per Share		
Net profit (¥millions)	5,244	5,841
Non-common stock (¥millions)	—	-
Net profit related to common stock (¥millions)	5,244	5,841
Average number of common shares outstanding in the period	117,806,777	117,806,777
Average number of treasury shares in the period	-1,744	-1,811
Average number of shares in the period	117,805,033	117,804,966
Net Profit per Share (diluted)		
Net profit adjustment (¥millions)	-43	-64
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. GMO Internet, Inc. 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: 60,000 2008 Stock Options 10th Round Common shares: 2,800 iv. GMO Pepabo, Inc. Stock Options 1st Round Common shares: 17,500 v. GMO Research, Inc. 2008 Stock Options 2nd Round Common shares: 4,500 vi. Social Appli Payment Service, Inc. 2010 Stock Options Common shares: 71 vii. GMO CLICK Holdings, Inc. Equity Warrants 1st Round Common shares: 9,798,750	1. GMO Internet, Inc 2005 Equity Warrants Common shares: 10,000 2. Consolidated Subsidiaries i. GMO AD Partners, Inc. Stock Options 5th Round Common shares: 169,400 ii. GlobalSign K.K. 2006 Stock Options Common shares: 651 iii. GMO Payment Gateway, Inc. 2004 Stock Options 9th Round Common shares: 22,800 2008 Stock Options 10th Round Common shares: 2,000 iv. GMO Research, Inc. 2008 Stock Options 2nd Round Common shares: 4,500 2008 Stock Options 2nd Round Common shares: 23,250 v. GMO CLICK Holdings, Inc. Equity Warrants 1st Round Common shares: 7,415,250 vi. GMO TECH, Inc. Equity Warrants 1st Round Common shares: 20,005

Significant Post Balance Sheet Events

None