

Fiscal Year 2018 Results Presentation

GMO INTERNET

STOCK CODE: 9449

February 12, 2019

1. Highlights
2. Overview
3. Financial Results
4. Segment Report
 - i) Group Overview
 - ii) Internet Infrastructure
 - iii) Online Advertising & Media
 - iv) Internet Finance
5. Global Operations
6. Cryptocurrency Segment
7. GMO Aozora Net Bank

Highlights

- For net sales and operating profit, the growth rate exceeded **20%**, **achieving a record high**
- Operating profit in Infrastructure and Finance exceeded **JPY 10B**, **achieving a record high**
- Number of customers exceeded **10M**
- Recorded extraordinary loss related to the cryptocurrency mining business restructuring but controlled risks and **strengthened** the balance sheet
- Dividend: **up JPY 6.5** YoY (total dividend per share for fiscal 2018 is JPY 29.50)
- Share Buyback: **up to JPY 3.11B** (planned)

Overview | Financial Results for FY2018

(JPY billions)	FY17 Actual	FY18 Actual	YoY Change	Change	
Net Sales	154.2	185.1	+30.9	+20.0%	Record high
Operating Profit	17.64	21.78	+4.14	+23.5%	Record high
Ordinary Profit	17.31	19.13	+1.82	+10.5%	Record high
Net Profit	8.03	-20.70	-28.73	-	

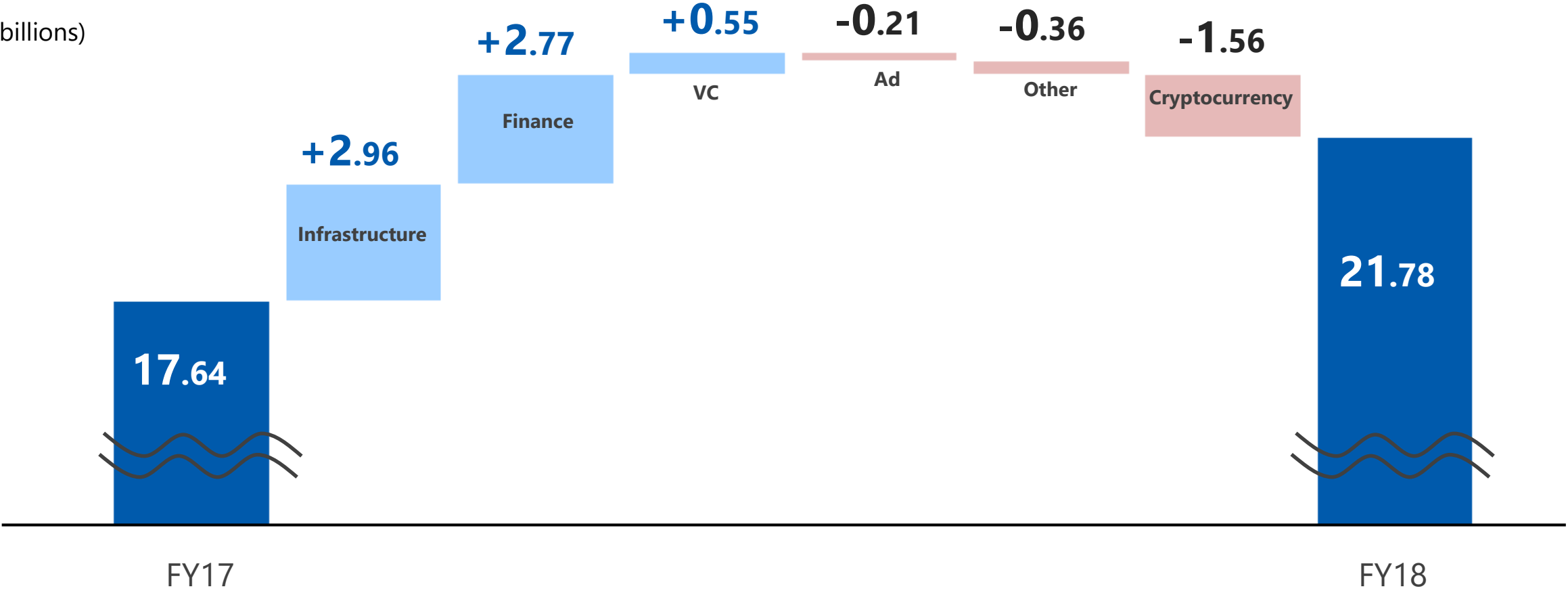
Overview | Financial Results for FY2018 (excl. cryptocurrency mining)

(JPY billions)	FY17 Actual	FY18 excl. mining	YoY Change	Change
Net Sales	154.2	180.9	+26.7	+17.3%
Operating Profit	17.64	23.94	+6.29	+35.7%
Ordinary Profit	17.31	23.31	+5.99	+34.6%
Net Profit	8.03	8.36	+0.33	+4.1%

Overview | Executive Summary

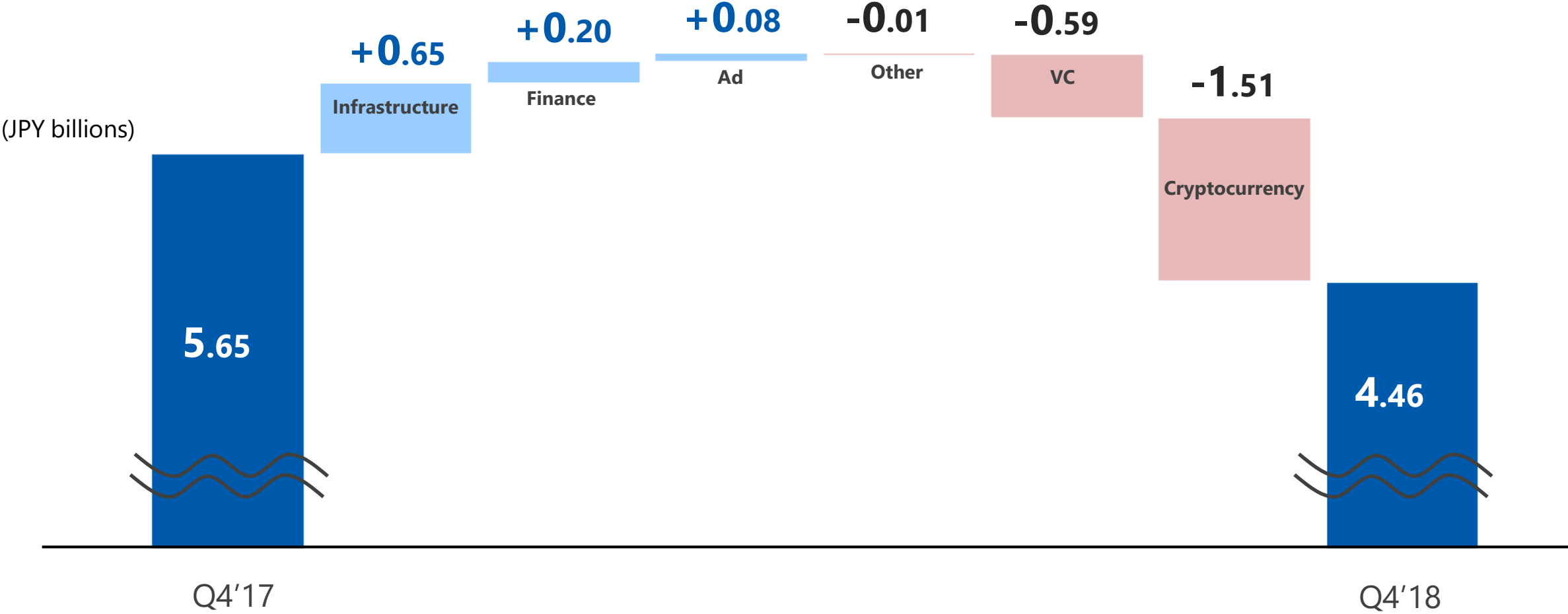
•OP: JPY 21.78B, up 4.14B (up 23.5% YoY)

(JPY billions)



Overview | Executive Summary: Q4 FY2018 (YoY; 3 mths to Dec)

- OP: JPY 4.46B, down 1.18B (down 20.9% YoY)



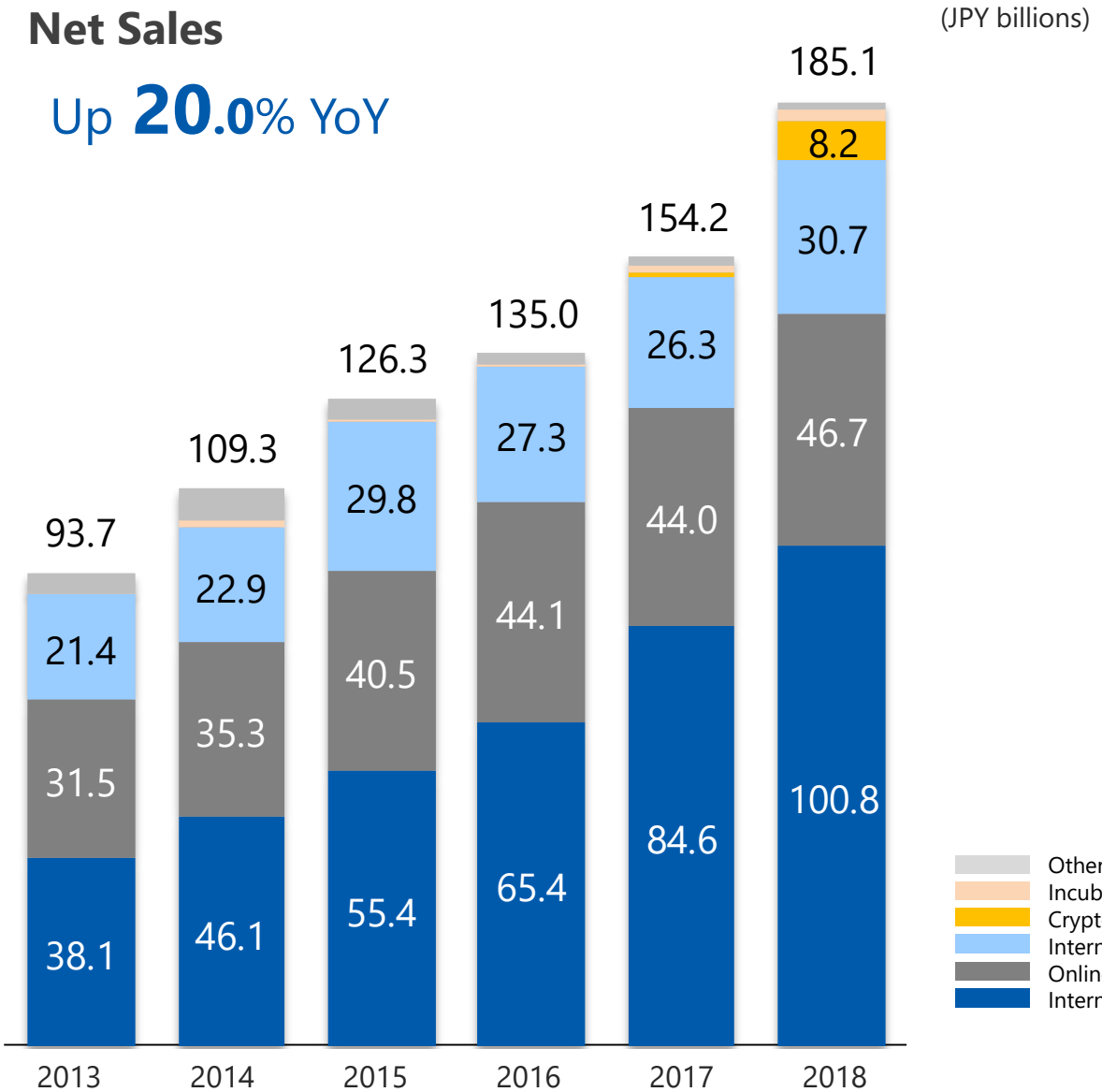
Overview | Executive Summary: FY2018

Internet Infrastructure	Net sales	JPY 100.80B (Up 19.1% YoY)	Record high
	OP	JPY 11.44B (Up 35.0% YoY)	Record high
	Each business area grew, including payment, e-commerce, SSL, and provider.		
Online Ad & Media	Net sales	JPY 46.79B (Up 6.2% YoY)	
	OP	JPY 0.76B (Down 21.8% YoY)	
	Revenue was up as the ad agency has performed favorably but the profitability decreased due to fraud issues.		
Internet Finance	Net sales	JPY 30.71B (Up 16.4% YoY)	Record high
	OP	JPY 10.75B (Up 34.7% YoY)	Record high
	FX profitability is improving through analysis of big-data. CFDs grew.		
Cryptocurrency	Net sales	JPY 8.24B (Up 7.38B YoY)	
	OP	JPY -1.36B (Down 1.56B YoY)	
	Cryptocurrency exchange business built a revenue base, and the company will review the business structure of its cryptocurrency mining business.		

Overview | Financial Results for FY2018

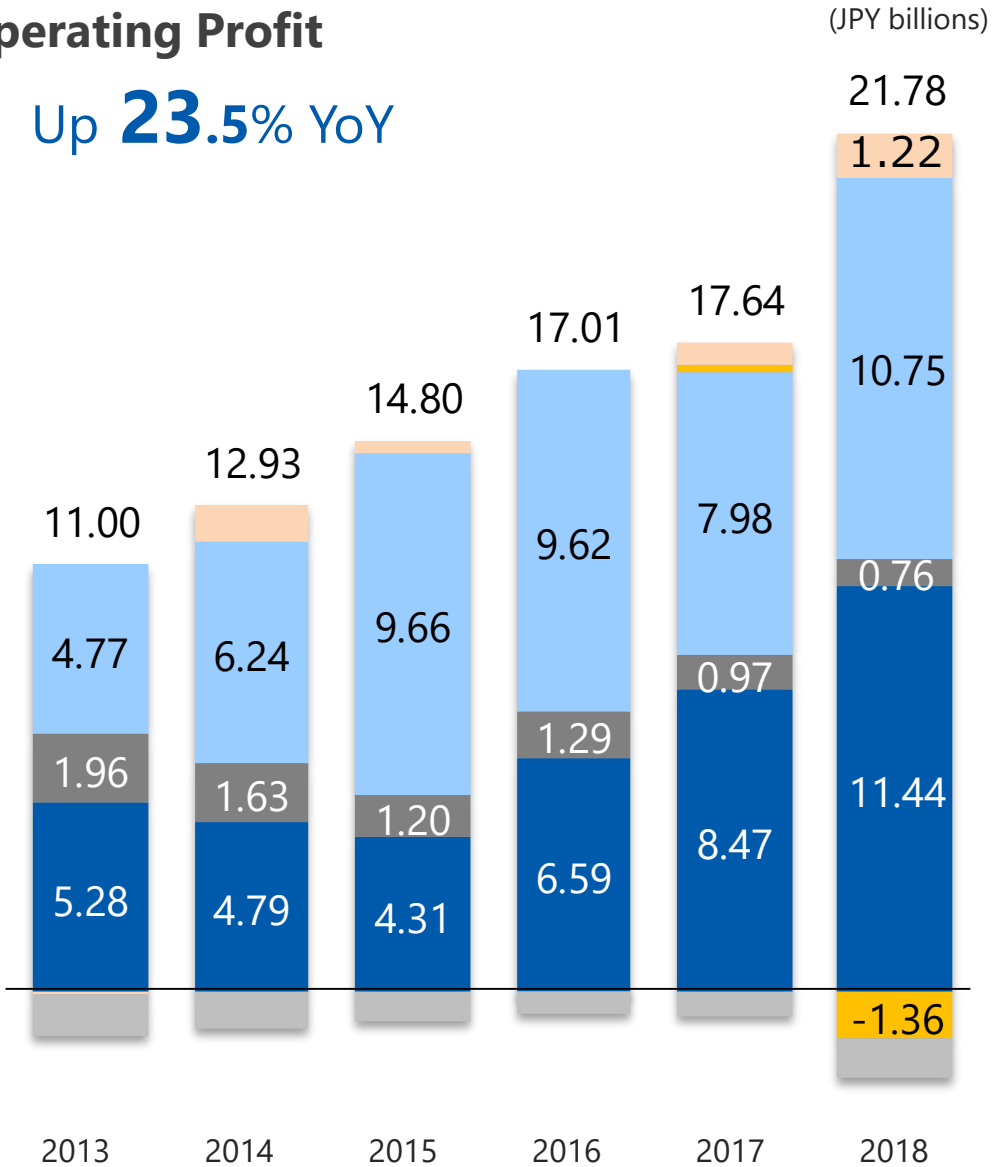
Net Sales

Up **20.0%** YoY

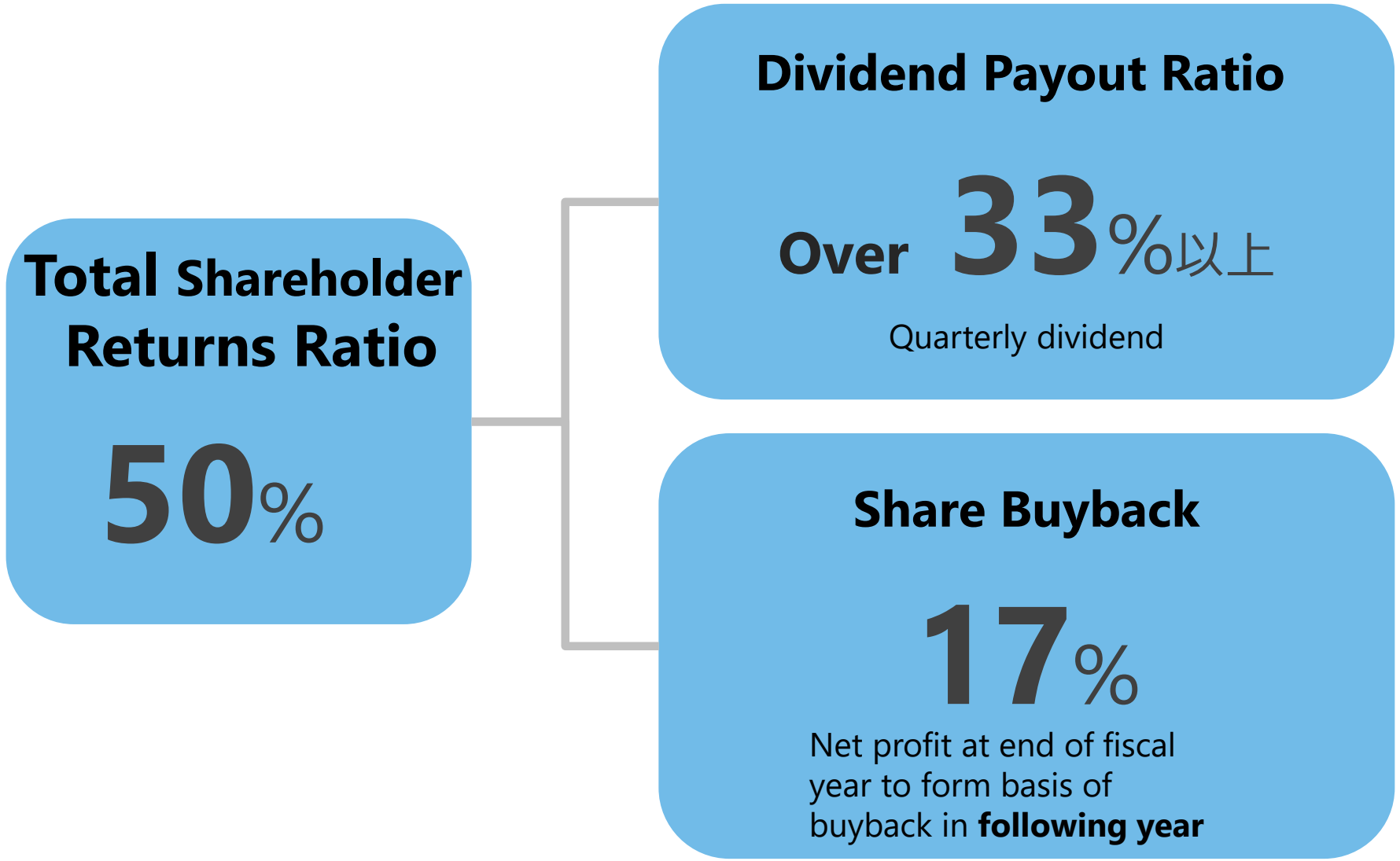


Operating Profit

Up **23.5%** YoY



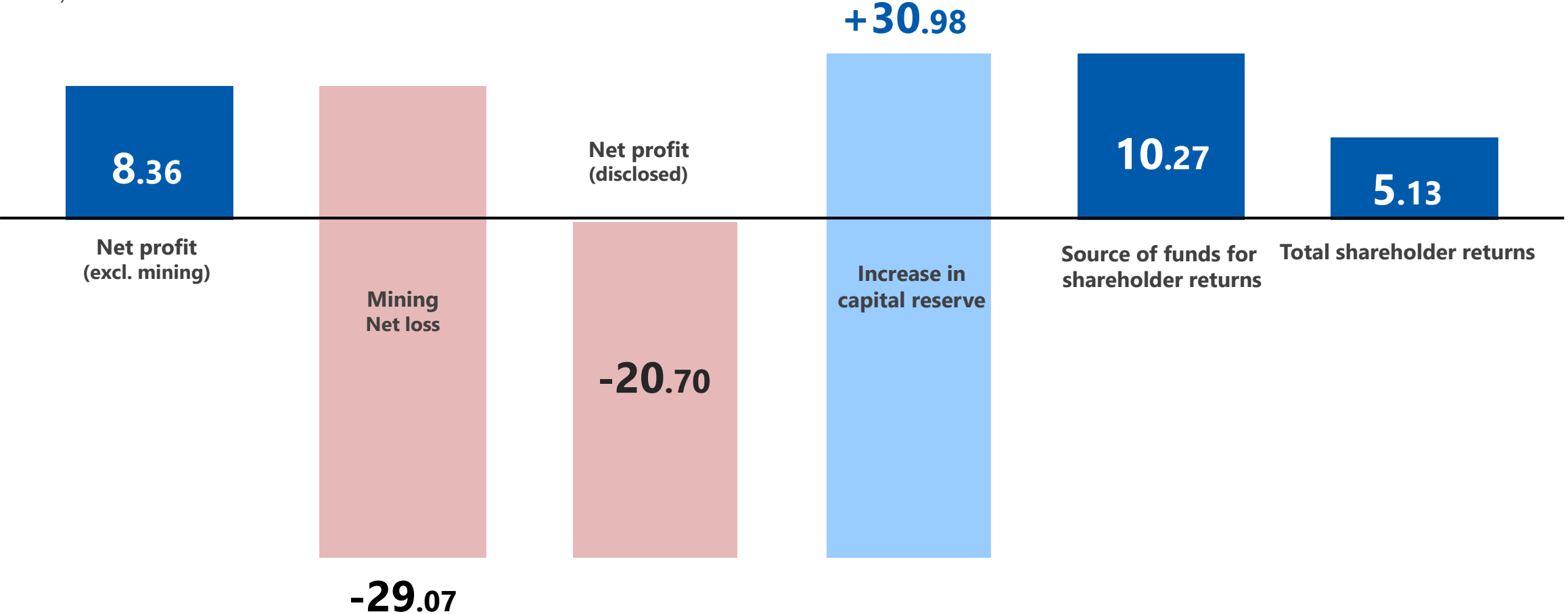
Overview | Shareholder Returns (Policy and Actual)



Overview | Shareholder Returns (special factors in FY2018)

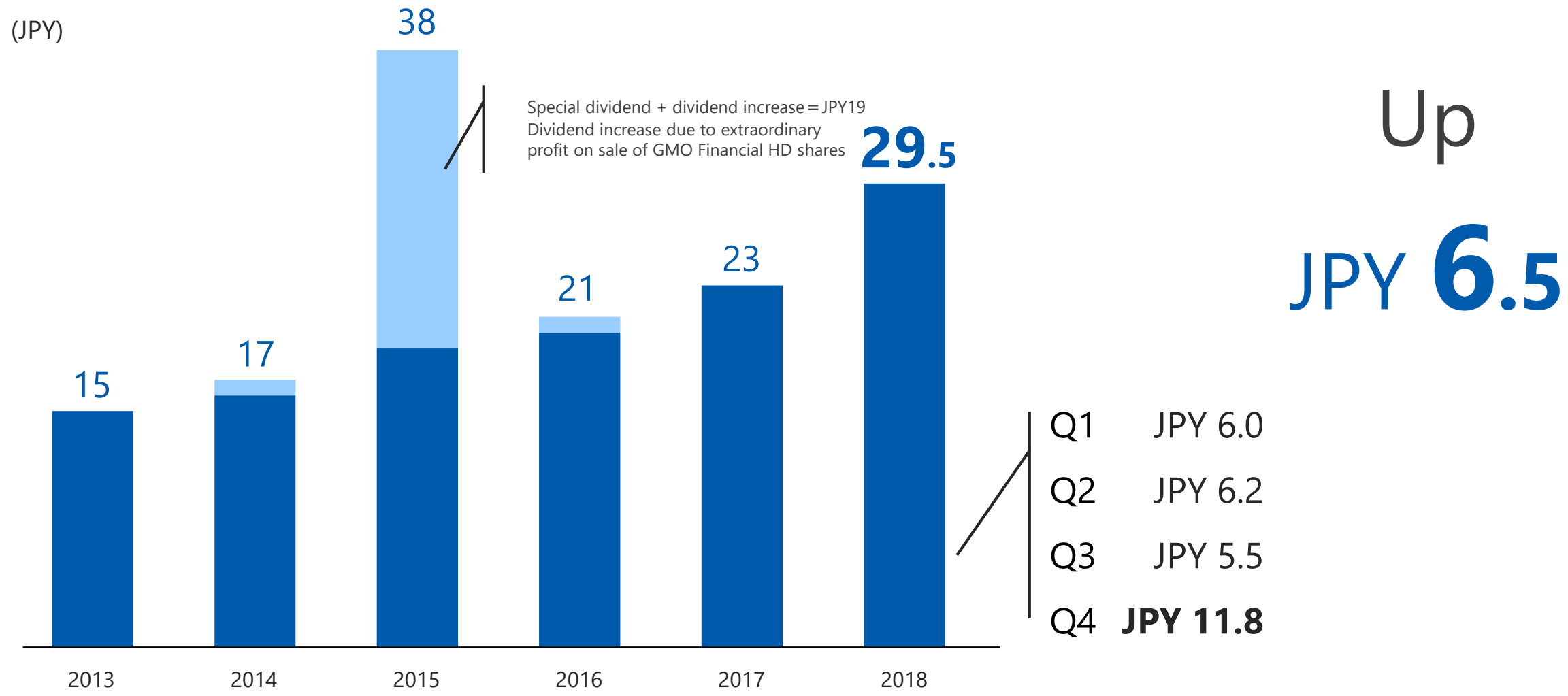
Profit attributable to owners of the parent was negative but the Company was able to increase the capital reserve through the sale of shares in listed subsidiaries in Q4 FY2018, which was the source of funds for dividends, aiming to return 50% of profits to shareholders

(JPY billions)



└ Extraordinary loss of JPY 35,385 million related to the cryptocurrency mining business restructuring

Overview | Shareholder Returns (dividend per share)



Overview | Shareholder Returns (acquisition of treasury stock)

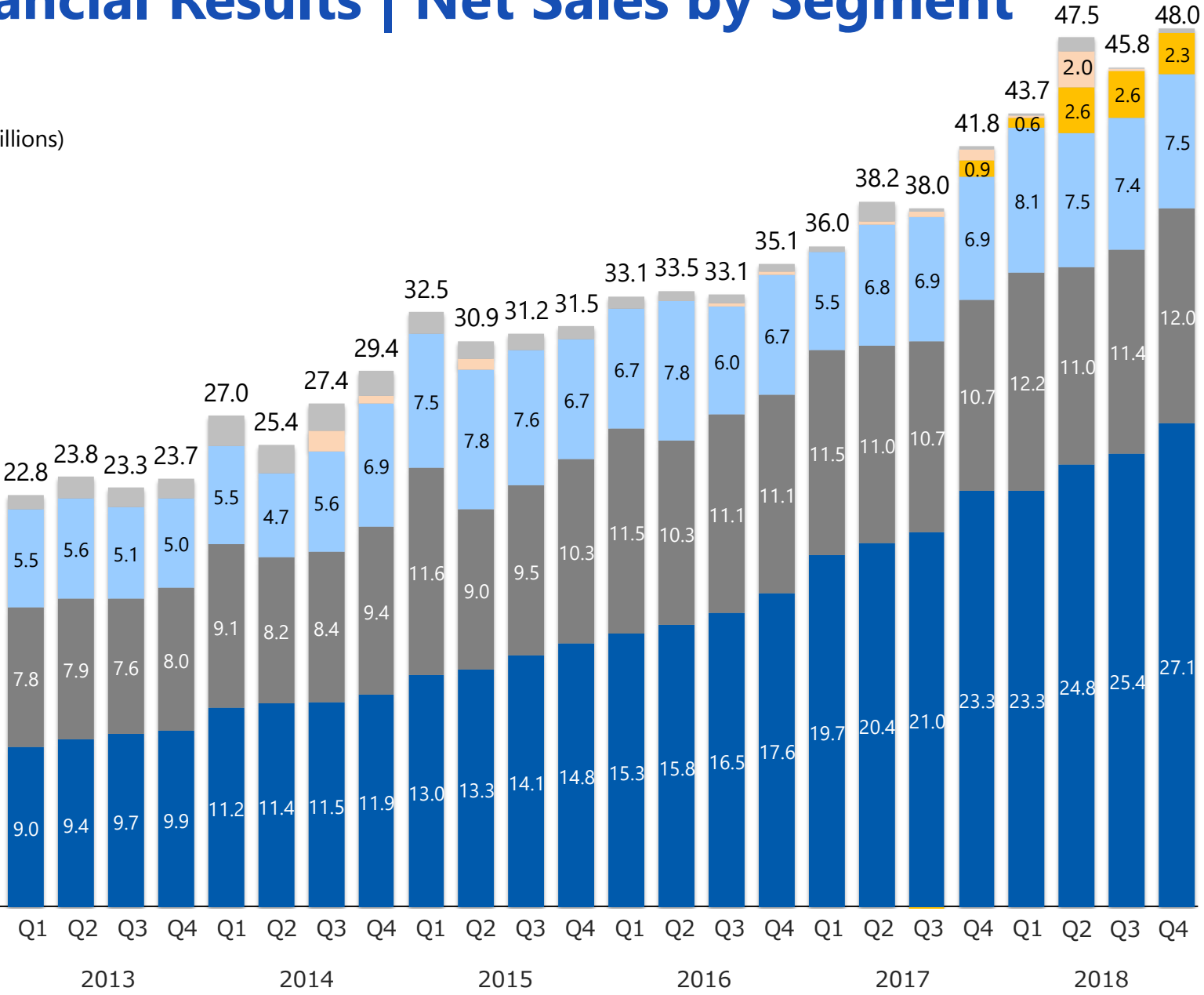
Total cost of share acquisition	Up to JPY 3,110M *
Total number of shares to be acquired	Up to 2,500,000 shares
Acquisition period	February 13, 2019, through to December 30, 2019

*The sum of profit attributable to owners of parent and the amount of increase in capital reserve in the current term is JPY10,273 million, out of which JPY1,750 million will be allocated to the acquisition of treasury stock. GMO Internet has decided to forego the purchase of treasury stock in the fiscal year 2018, and JPY1,360 million will be allocated to the acquisition of treasury stock in 2019.

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Financial Results | Net Sales by Segment

(JPY billions)

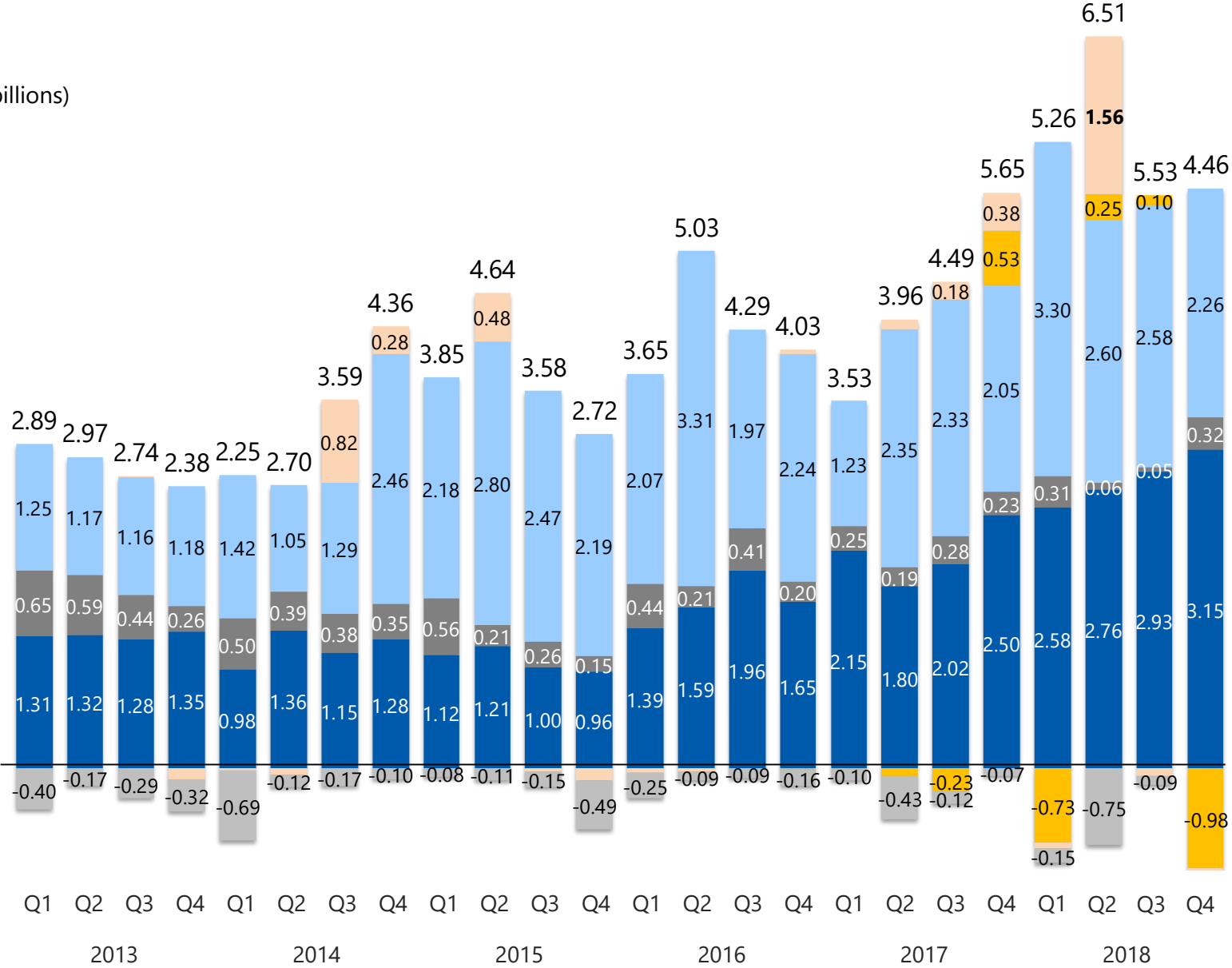


Revenue up
14.7%
YoY

- Other
- Incubation
- Cryptocurrency
- Internet Finance
- Online Ads/Media
- Internet Infrastructure

Financial Results | Profit by Segment

(JPY billions)



Profit down
20.9%
YoY

- Other
- Incubation
- Cryptocurrency
- Internet Finance
- Online Ads/Media
- Internet Infrastructure

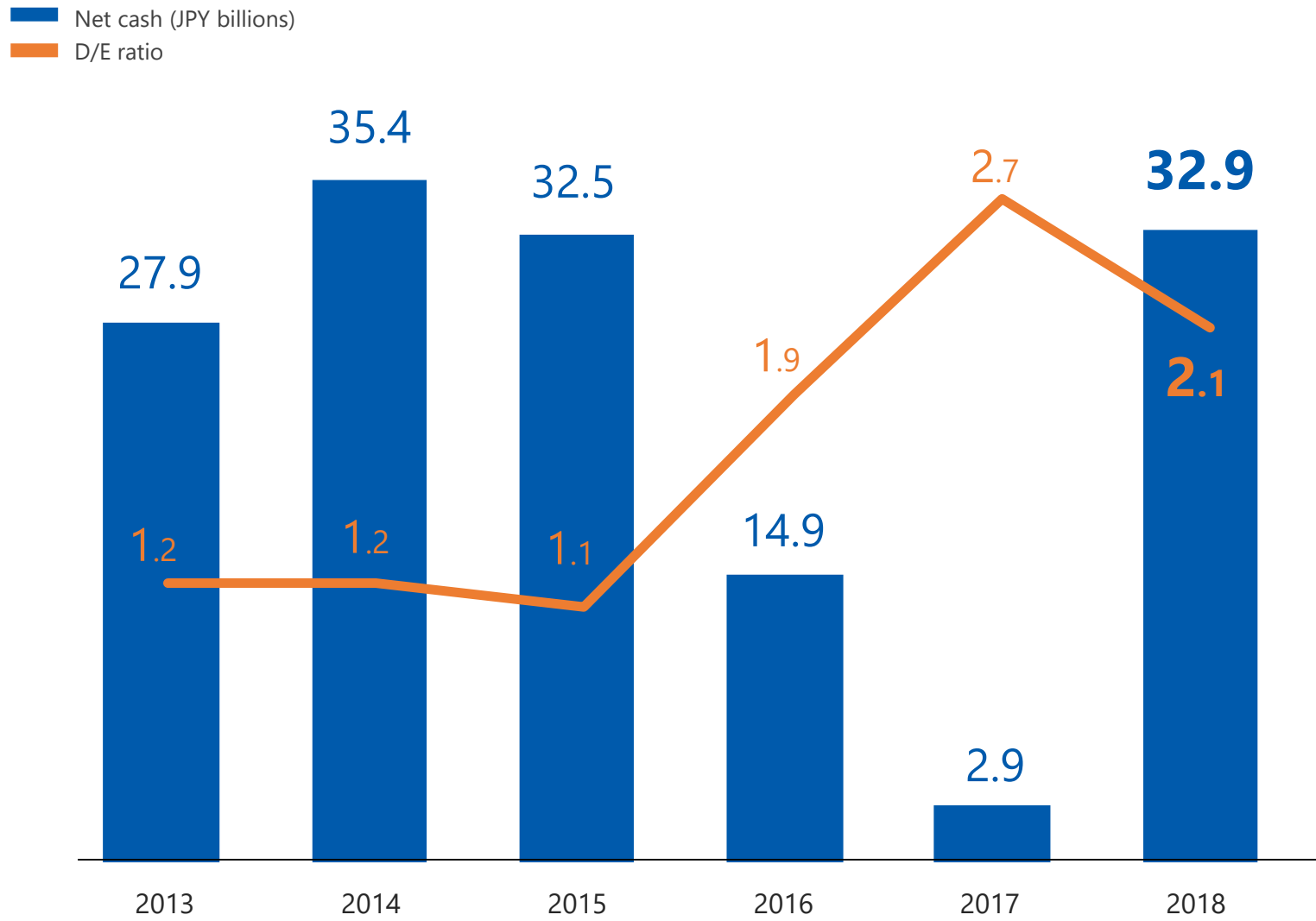
Financial Results | Consolidated Profit and Loss

(JPY millions)	FY2017	FY2018	Change	supplementary information
Net Sales	154,256	185,177	20.0%	
Gross Profit on Sales	75,920	90,281	18.9%	
Operating Profit	17,642	21,787	23.5%	
(OP Margin)	11.4%	11.8%	+0.3pt	
Non Operating Profit and Loss	-327	-2,651	-	Foreign exchange loss mainly in mining business: -1.58B Equity investment loss: -8.2B
Ordinary Profit	17,315	19,135	10.5%	
Extraordinary Profit or loss	-1,191	-36,111	-	Extraordinary loss in cryptocurrency mining business: 35.3B
Profit before Tax	16,124	-16,975	-205.3%	
Corporate Taxes etc.	4,047	-1,672	-141.3%	
Profit attributable to Owners of the Parent	8,030	-20,707	-357.8%	

Financial Results | Consolidated Balance Sheet

(JPY millions)	End of 12/2017	End of 12/2018	Change	GMO Financial HD (End of 12/2018)	Change
Current Assets	707,112	714,465	7,353	516,651	-32,944
Cash & Deposits	119,006	144,096	25,089	39,642	3,100
Fixed Assets	42,047	38,161	-3,886	8,082	2,134
Goodwill	2,310	1,843	-467	611	-163
Software	5,140	5,818	678	1,551	110
Investment Securities	7,701	7,617	-84	2,932	1,536
Total Assets	749,160	752,627	3,467	524,733	-30,810
Liabilities	674,805	656,205	-18,600	488,820	-34,927
Interest-bearing debts	116,056	111,175	-4,880	66,511	6,026
Net Assets	74,354	96,421	22,067	35,913	4,116
Non-controlling Minority Equity	30,582	43,920	13,338	963	214
Shareholders' Equity	43,697	52,422	8,724	34,583	3,992
Earned Surplus	38,113	14,678	-23,434	31,022	3,867
(Shareholders' Equity Ratio)	5.8%	7.0%	+1.1pt	6.7%	+1.1pt
Liabilities/Net Assets Total	749,160	752,627	3,467	524,733	-30,810

Financial Results | Consolidated Balance Sheet (net cash and D/E ratio)



No net debt

Financial Results | Consolidated Cash Flow

(JPY billions)	FY17	FY18	Significant Factors	GMO-FH (1-12月)
Operating Cash Flow	+5.48	+13.12		+3.23
Investing Cash Flow	-13.21	-29.89	Purchase of tangible and intangible fixed assets: -28.8B (including cryptocurrency mining business: -20.5B)	-2.22
Financing Cash Flow	+35.07	+43.96	Financing 72.5B └ Sale of shares in subsidiaries +54.9B └ Issuing CB +17.5B Repayment of loan -22.3B	+2.80
Change in Cash and Equivalents	+27.69	+25.83		+3.81
Balance of Cash and Equivalents	117.81	143.65		39.33

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Group Overview | Listed Group Companies: Equity Share

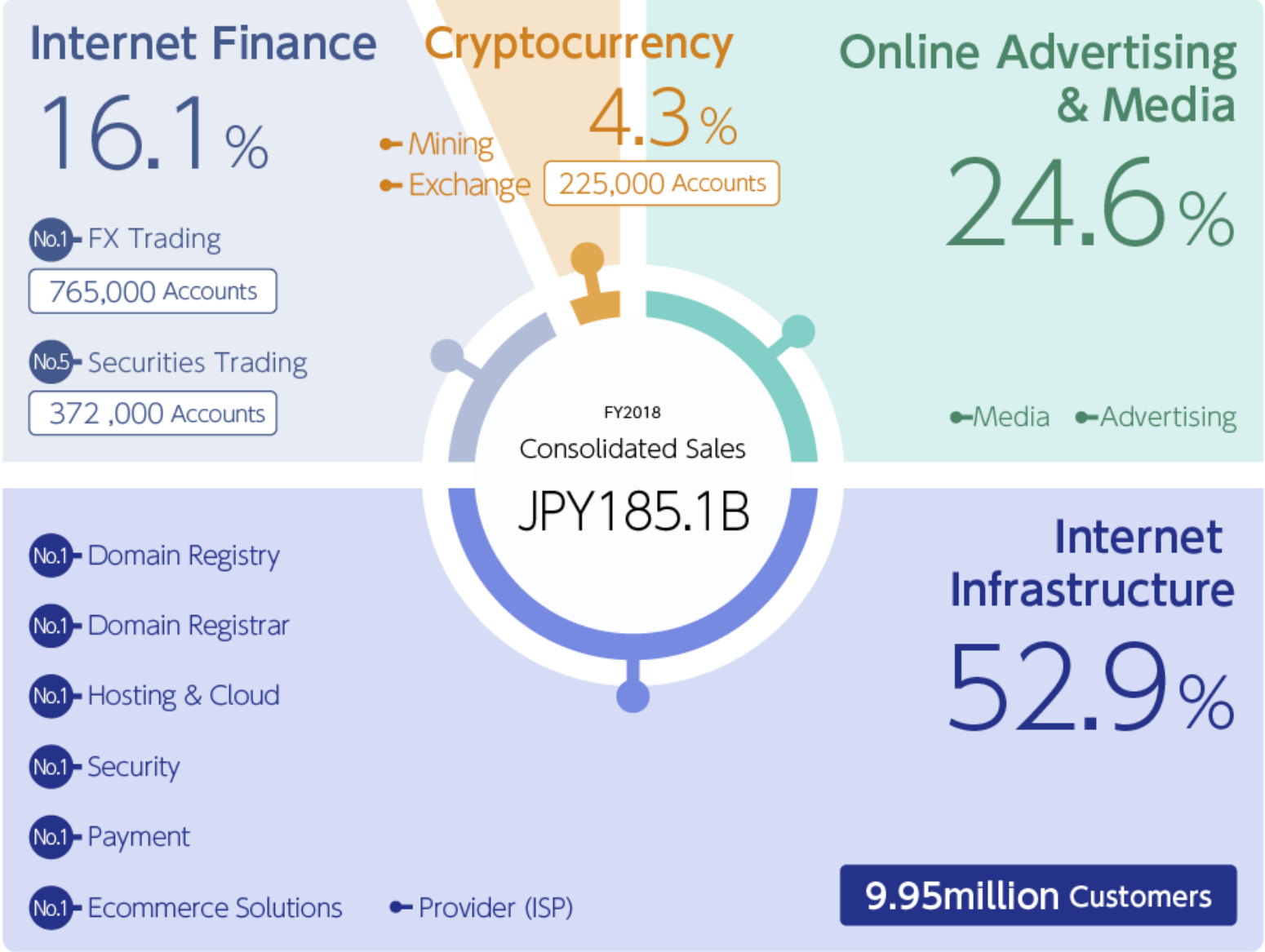
Stock Code	Stock Name	Exchange	Market Cap ^{*1} (JPY billion)	% Ownership ^{*2}	Equity Share (JPY billion)
9449	GMO Internet	TSE 1	172.8		
3769	GMO Payment Gateway	TSE1	396.0	51.6%→42.0% ^{*3}	166.3
7177	GMO Financial Holdings	TSE JQS	76.3	80.3%→61.9% ^{*3}	47.2
3788	GMO CLOUD	TSE1	40.3	51.8%	20.8
3633	GMO Pepabo	TSE JQS	16.0	64.1%	10.2
4784	GMO AD Partners	TSE JQS	6.6	55.8%	3.6
6180	GMO Media	TSE MOTHERS	2.9	65.3%	1.8
3695	GMO Research	TSE MOTHERS	2.3	53.7%	1.2
6026	GMO TECH	TSE MOTHERS	1.7	54.1%	0.9
Group Total			714.9 ^{*4}		306.3

GMO-PG (Dec. 17)
Sale: 7.20M shares
Total amount: approx. JPY 38.0B
Price: JPY 5,328 per share

GMO-FH (Oct. 12)
Sale: 22.02M shares
Total amount: approx. JPY 17.0B
Price: JPY 786 per share

*1 Market value as of 2/12/2019 *2 Includes indirect holdings *3 After the secondary offering of shares *4 Calculated as the sum of the listed market cap values

Group Overview | Business Segments (Composition)

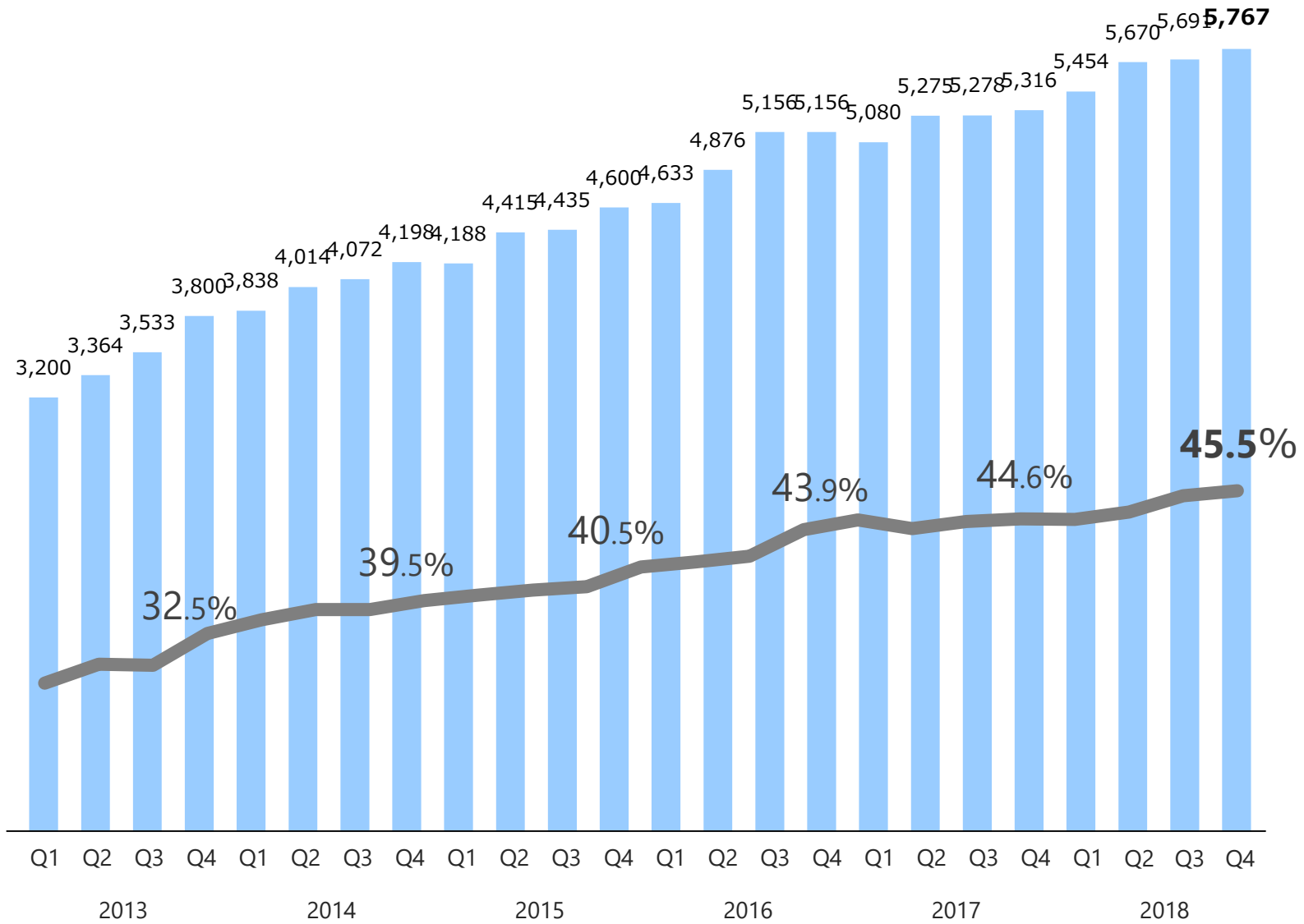


Solid revenue base
11.31M customers
 (Infrastructure and Finance)

Up
1.25M
 YoY

*Net sales ratio is calculated based on the numbers before cancelling inter-segment transactions. *We established the new Cryptocurrency segment in Q1 FY2018, and Mobile Entertainment segment was merged into other segments. *11.31M is an aggregate number of customers (the actual number) in Infrastructure, Finance, and Cryptocurrency segments.

Group Overview | Strengths: Technology



Goal: Workforce of over **50%** engineers

Partners
% Engineers

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Internet Infrastructure | Segment Composition

Strong No. 1

Domain Registry   Domestic market share at **83.6%**^{*1}

Strong No. 1

Domain Registrar    Domestic market share at **87.3%**^{*2}

Strong No. 1

Hosting & Cloud       Domestic market share at **56.2%**^{*3}

No. 1

Ecommerce   **72,400** paid stores

No. 1

Security  YoY increase in certificate issues **5.7%**^{*4}

No. 1

Payment   **112,341** merchants

*1 Based on our own data

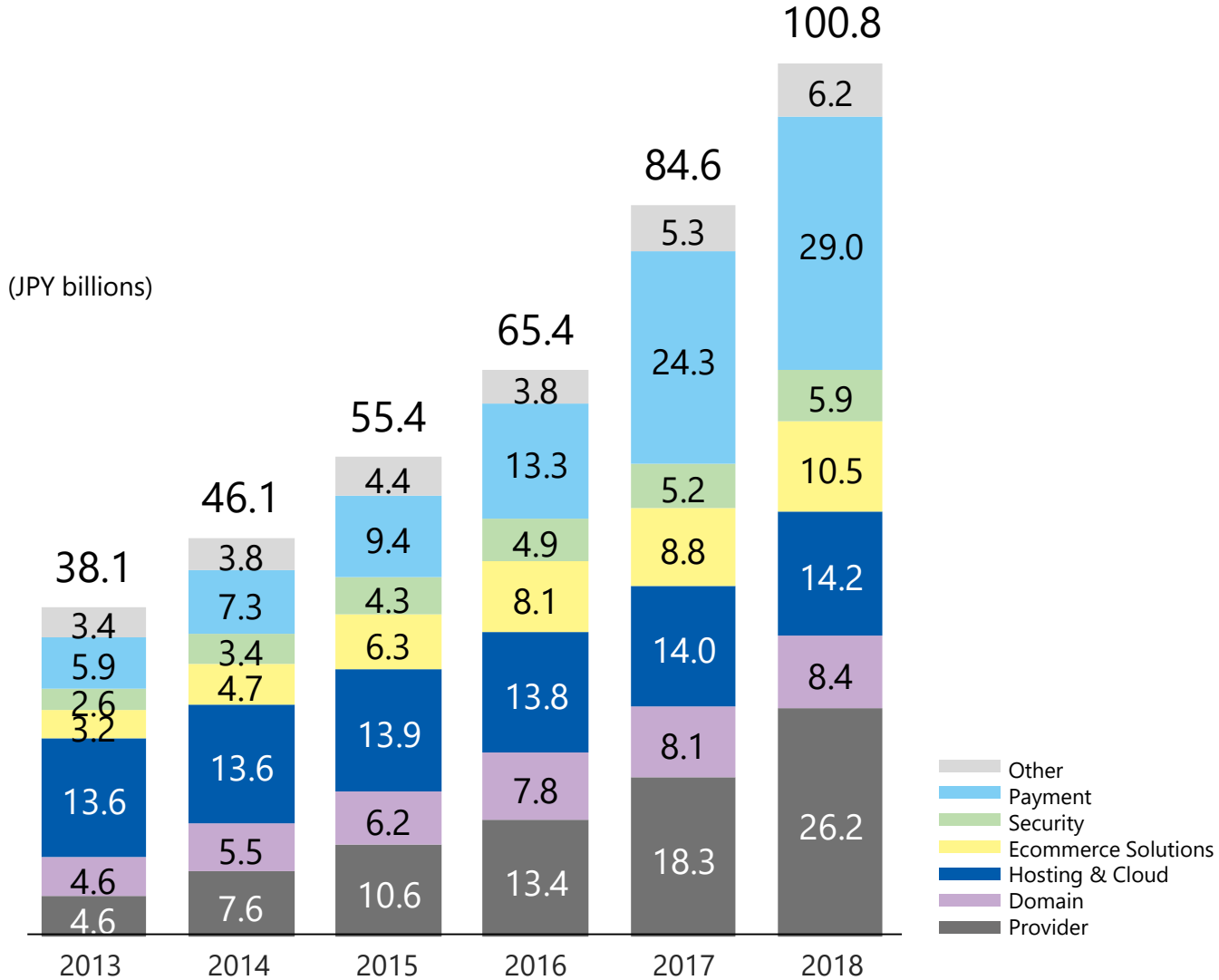
*2 Based on ICANN data

*3 Based on Webhosting.info data

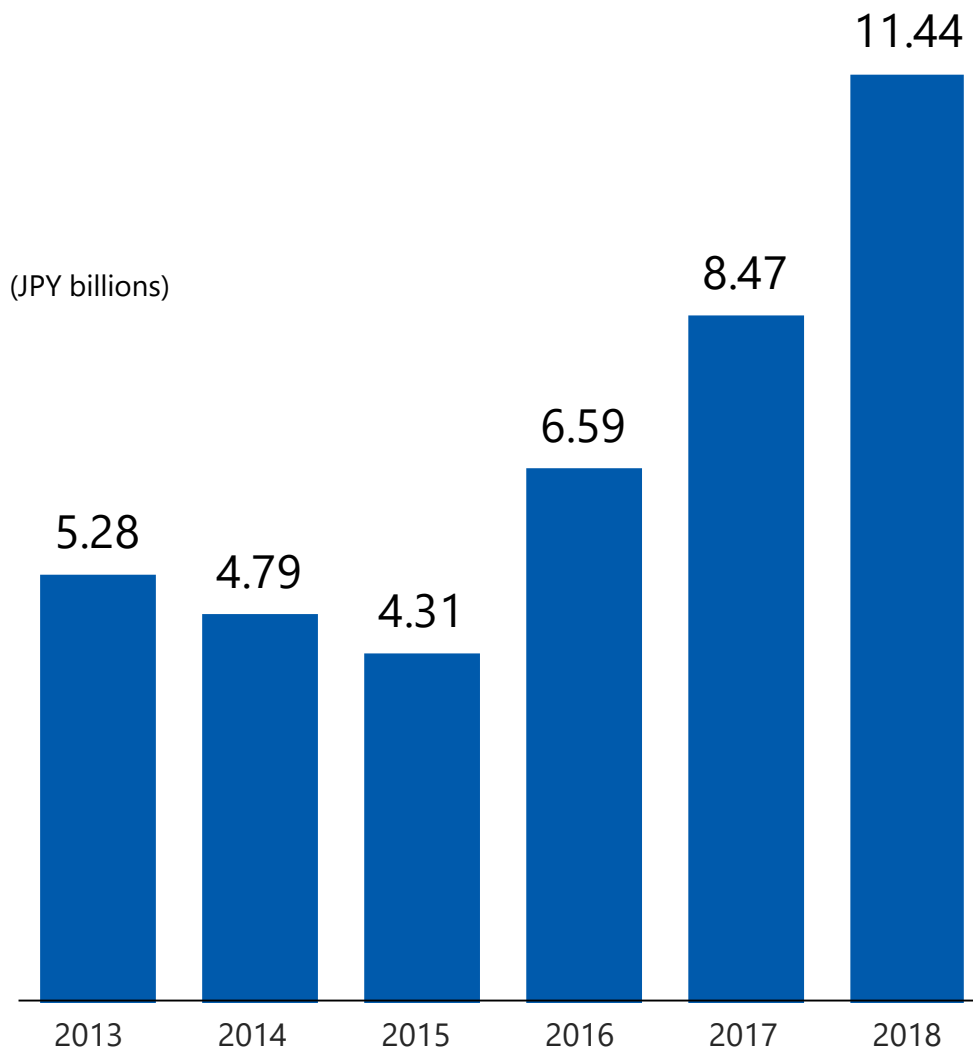
*4 YoY growth in domestic certificates issued in Q4

Internet Infrastructure | Full-year results trends

Net Sales: Up **19.1%** YoY

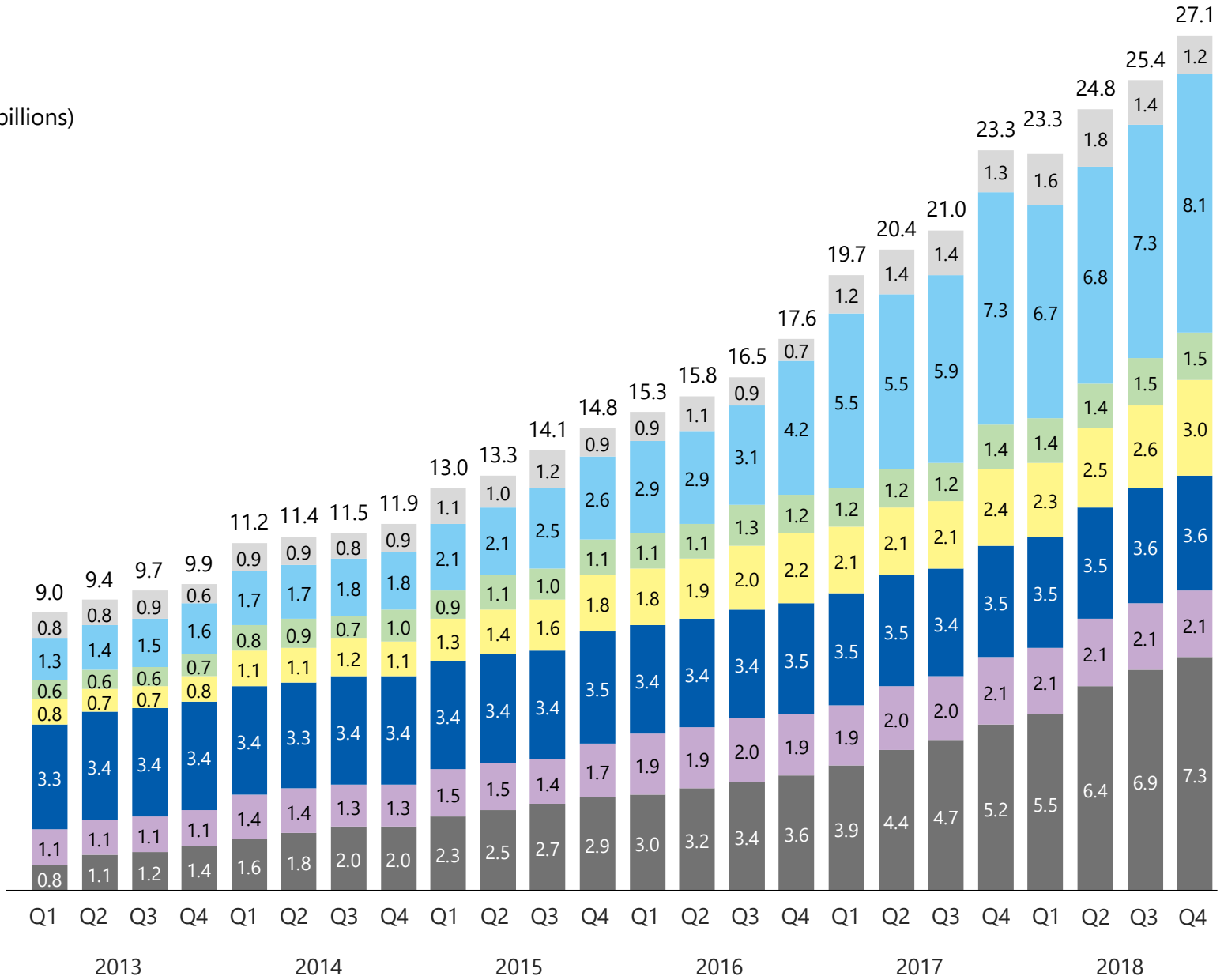


Operating Profit: Up **35.0%** YoY



Internet Infrastructure | Net Sales by Sub-Segment

(JPY billions)

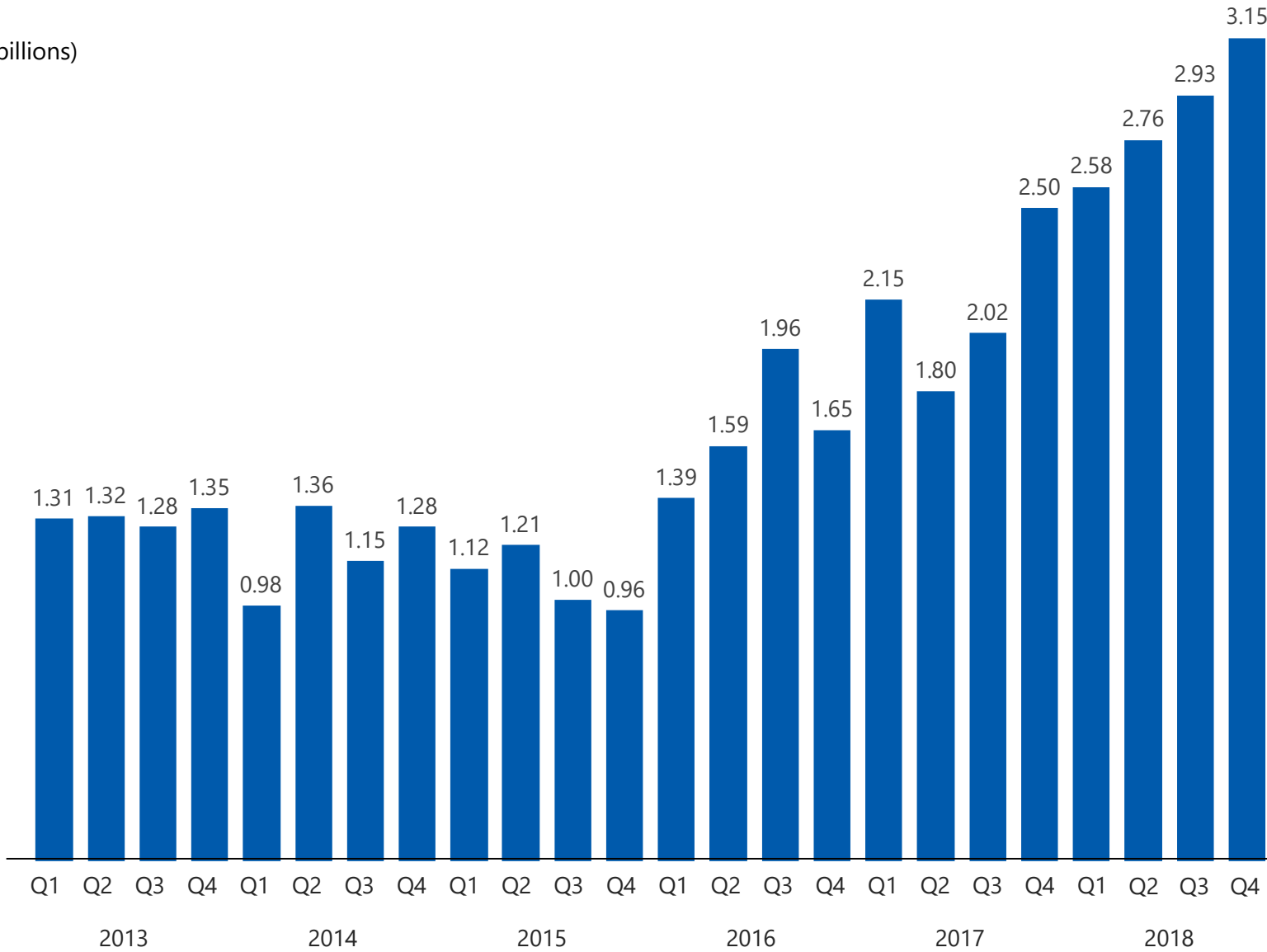


Revenue up
16.1%
YoY

- Other
- Payment
- Security
- Ecommerce Solutions
- Hosting & Cloud
- Domain
- Provider

Internet Infrastructure | Operating Profit

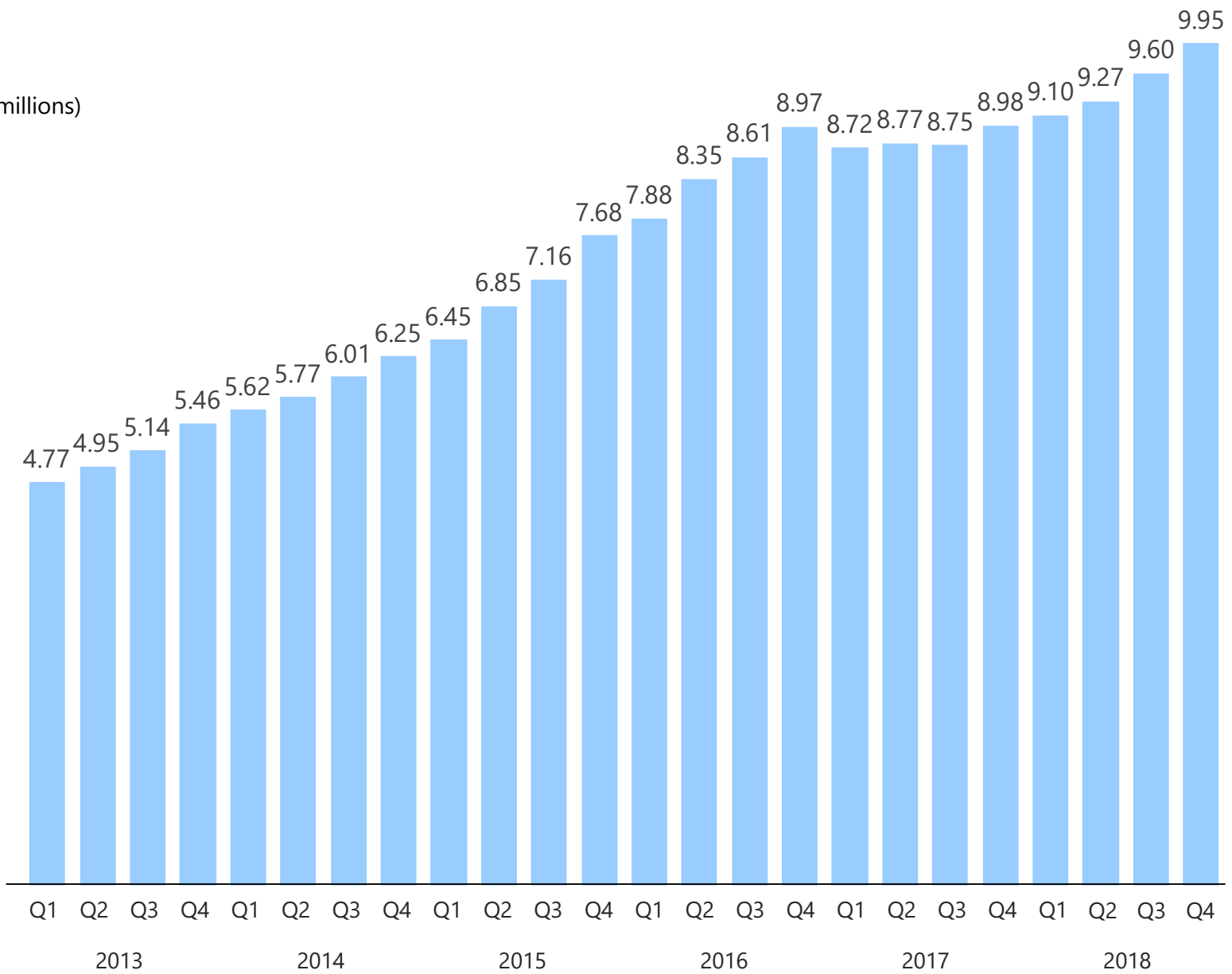
(JPY billions)



Profit up
26.1%
YoY

Internet Infrastructure | Contracts

(JPY millions)

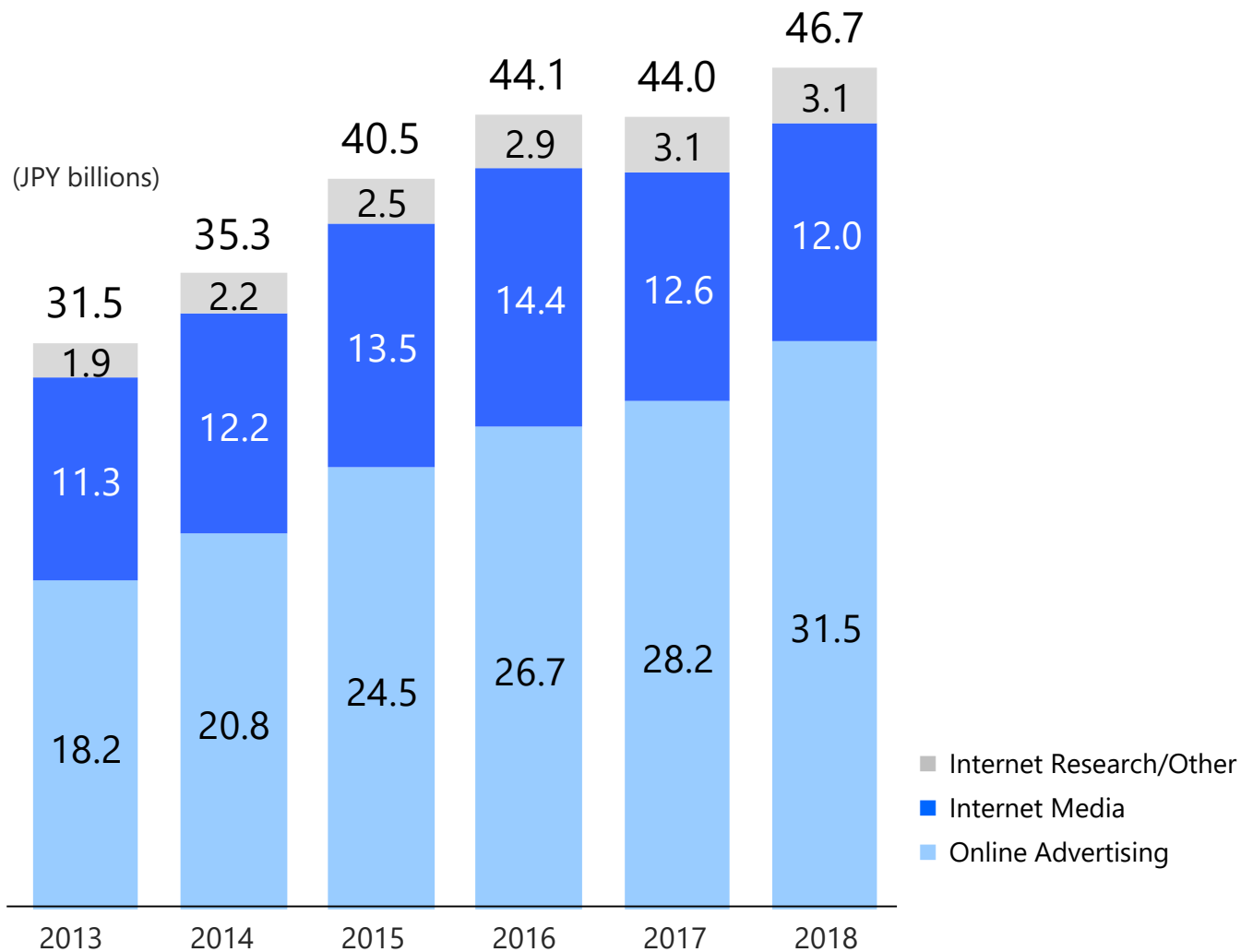


Solid revenue base
9.95M
customers

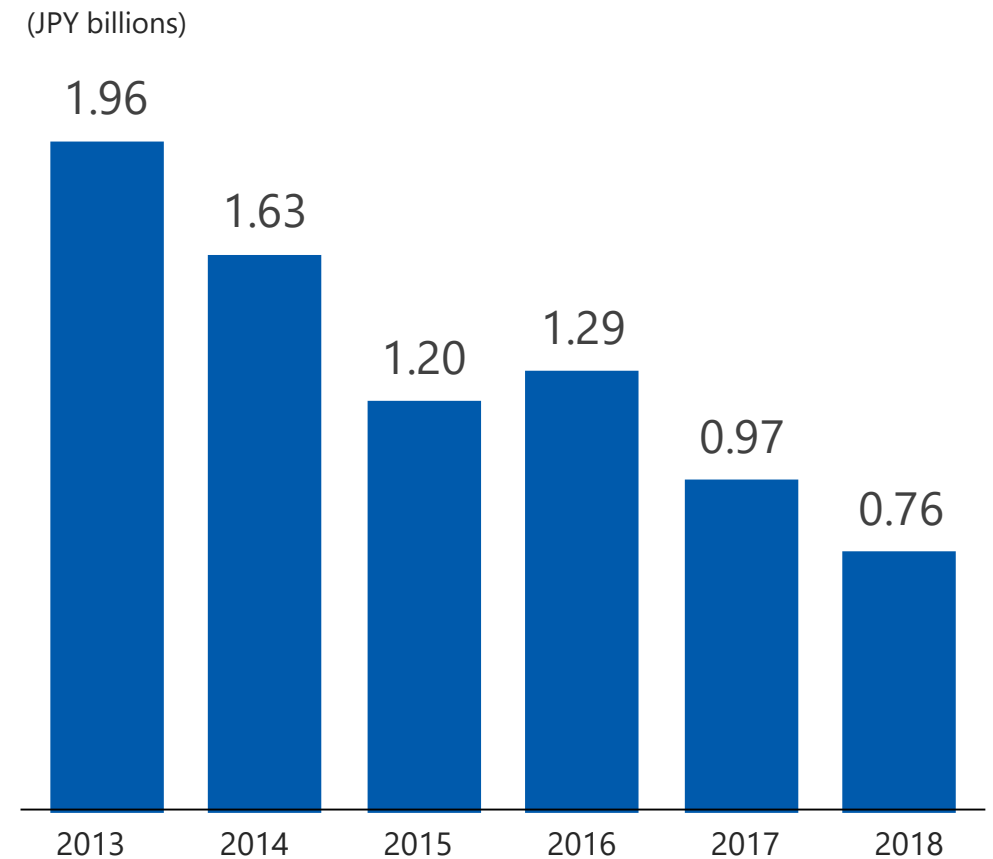
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Online Advertising & Media | Full-year results trends

Net Sales: Up **6.2%** YoY

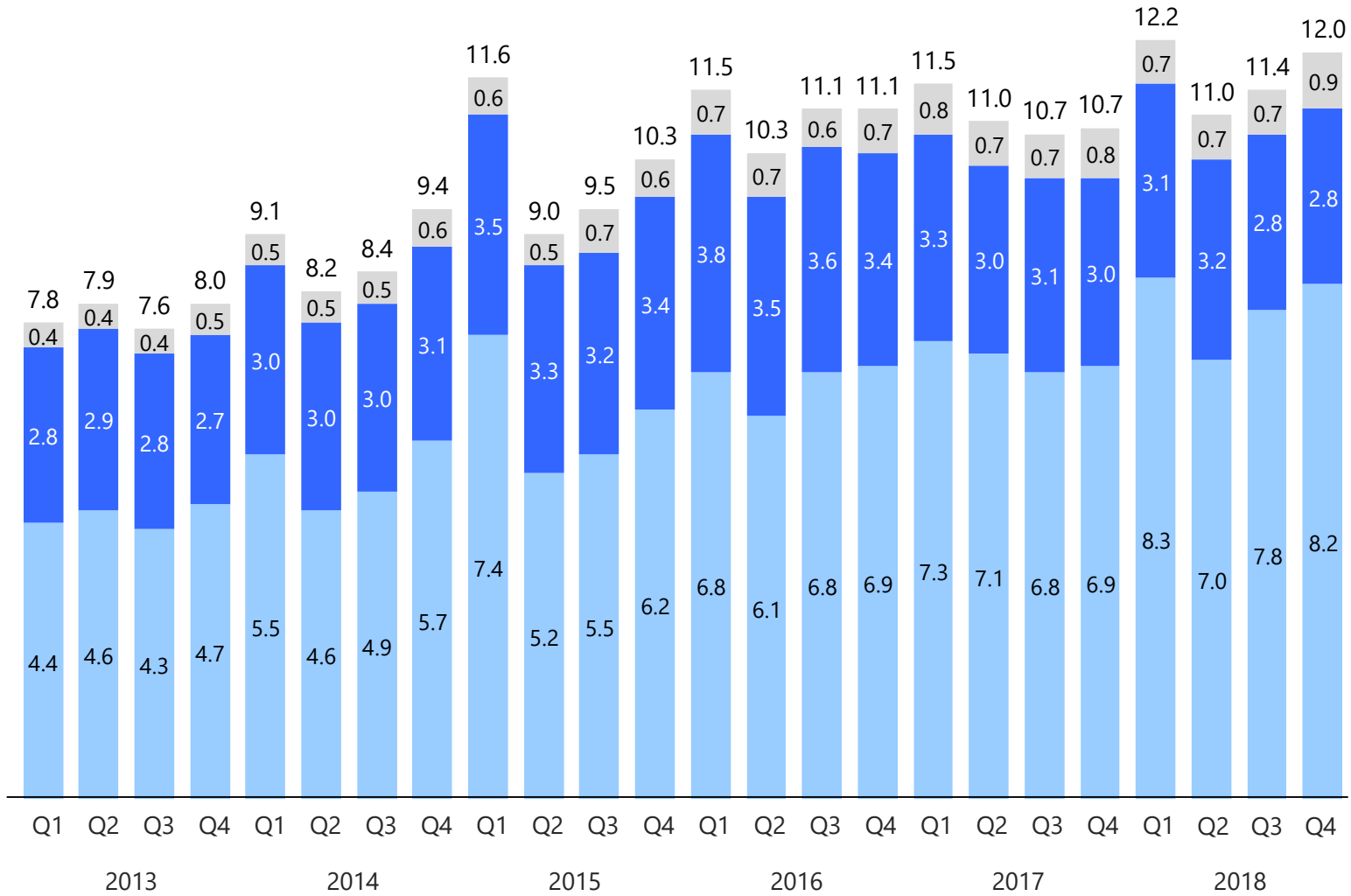


Operating Profit: Down **21.8%** YoY



Online Advertising & Media | Net Sales

(JPY billions)

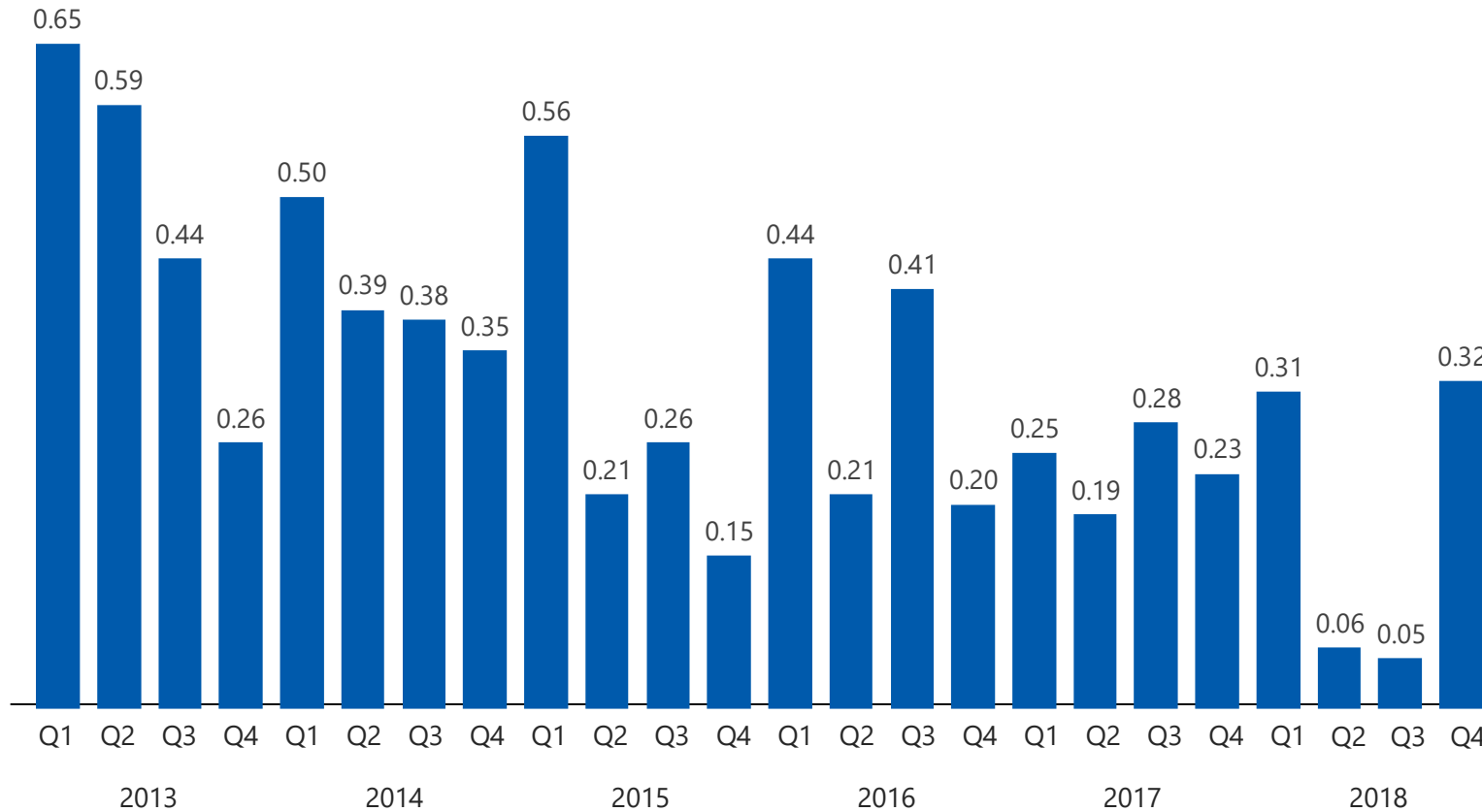


Revenue up
11.7%
YoY

- Internet Research/Other
- Internet Media
- Online Advertising

Online Advertising & Media | Operating Profit

(JPY billions)

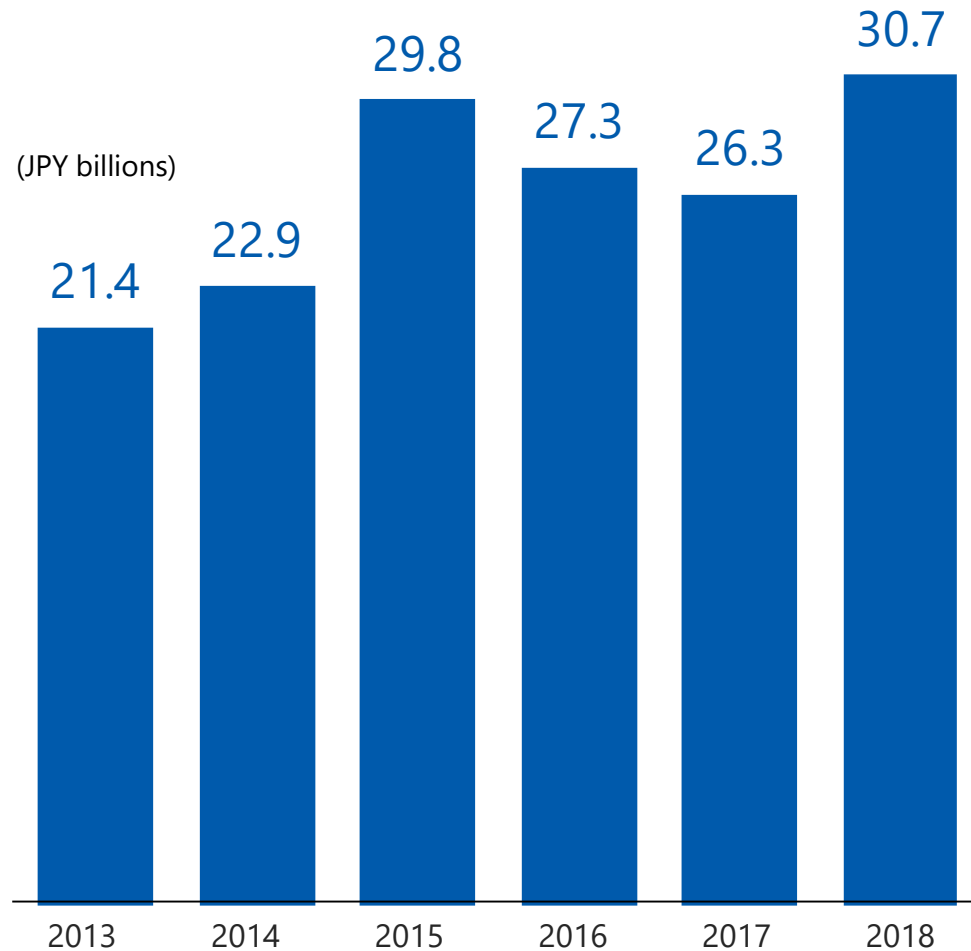


Profit up
36.8%
YoY

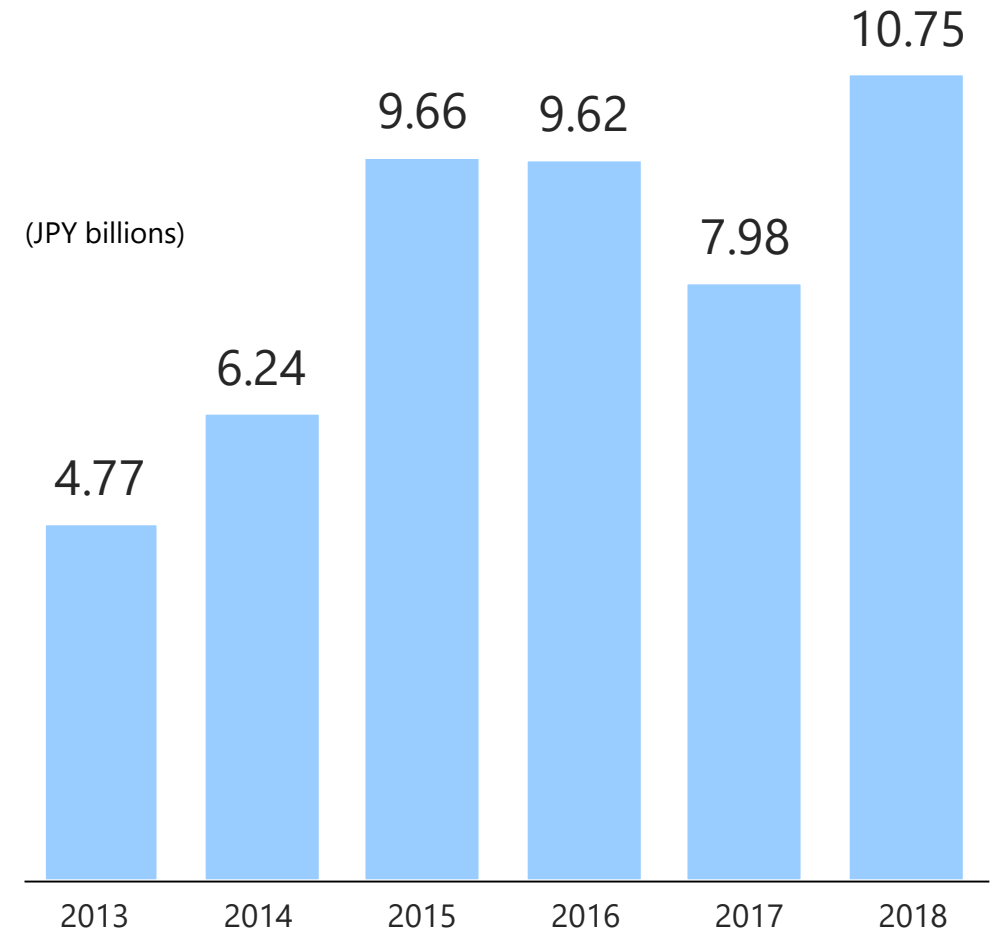
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Internet Finance | Full-year results trends

Net Sales: Up **16.4%** YoY

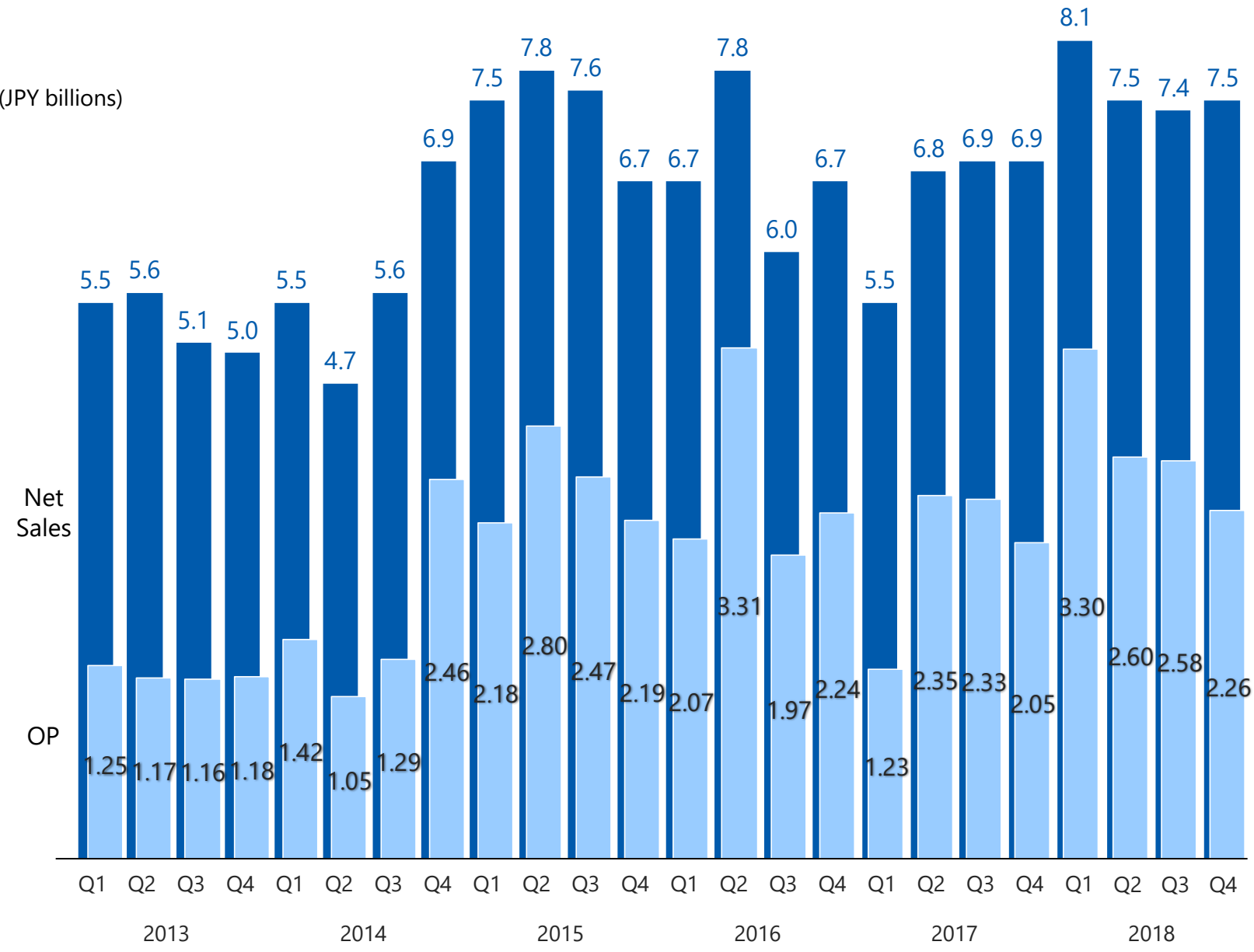


Operating Profit: Up **34.7%** YoY



Internet Finance | Historical Performance by Quarter

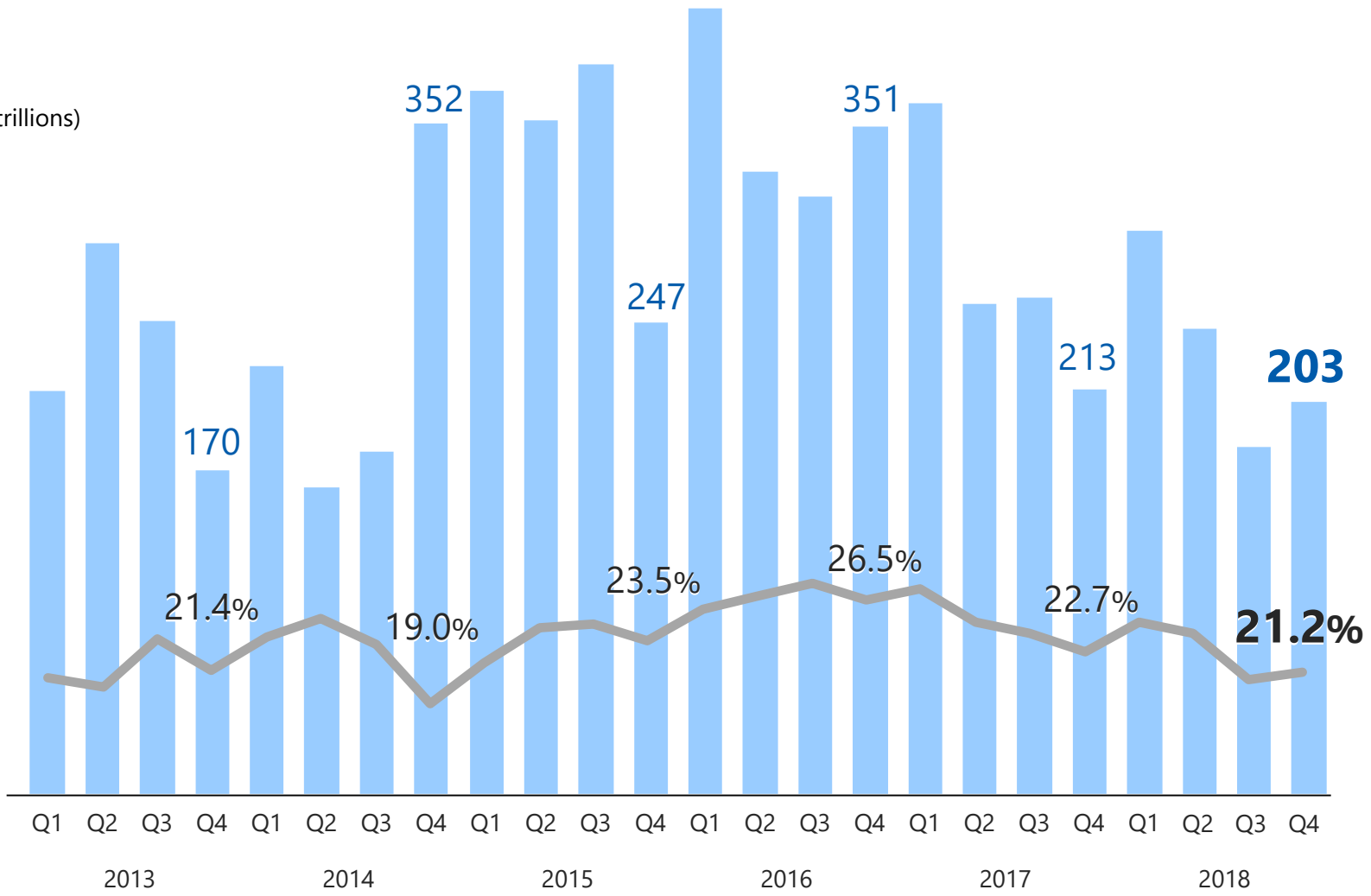
(JPY billions)



Revenue up
7.7%
 Profit up
10.0%
 YoY

Internet Finance | FX Trading Volume

(JPY trillions)



No.1 annual FX trading volume worldwide for **7th** consecutive year

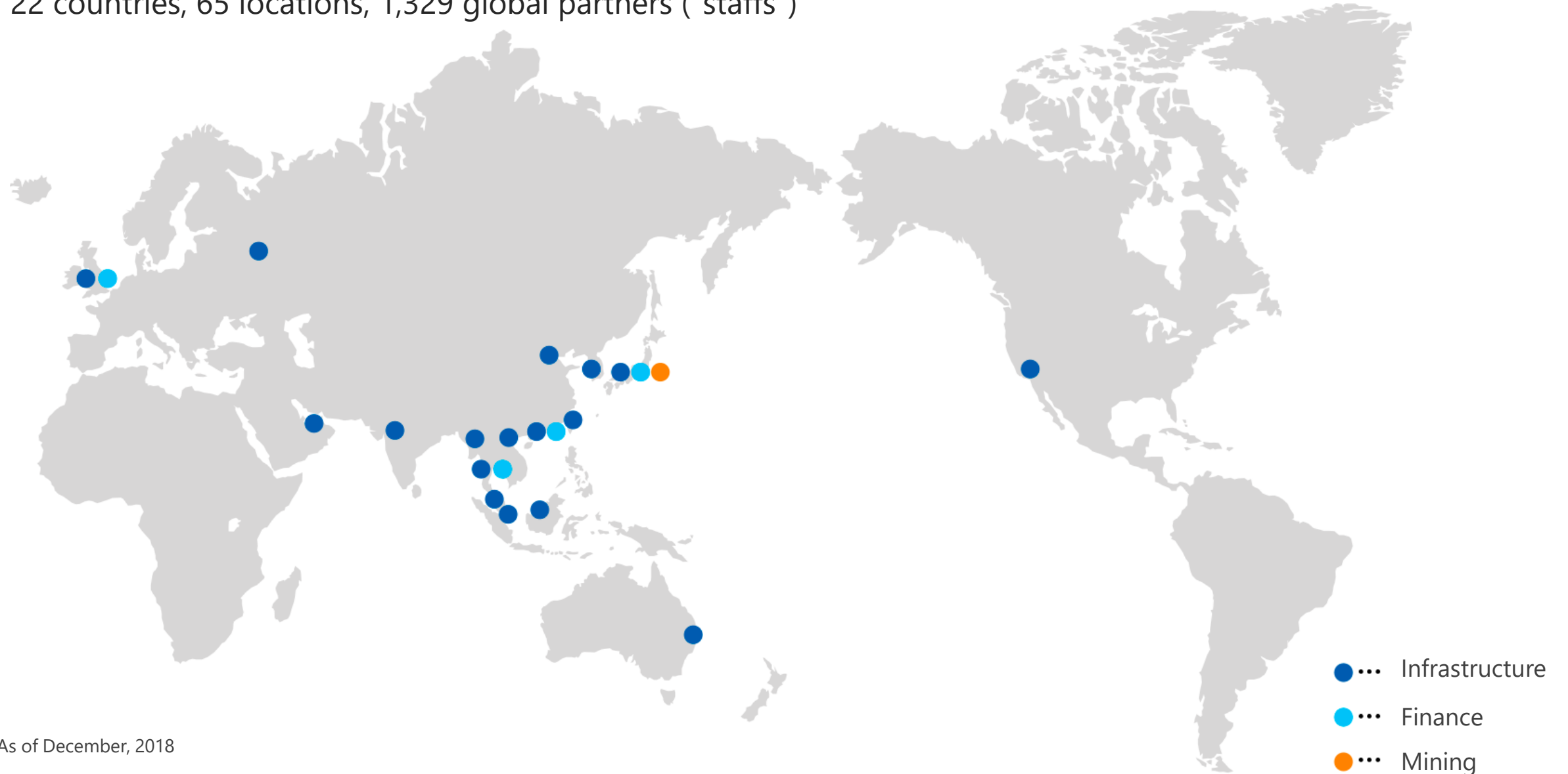
Trading volume
Share

Prepared based on Results Presentation of GMO Financial HD for Q4 of FY2018 and "Monthly Statistical Bulletin on Over-The Counter Retail FX Margin Trading" published by the Financial Futures Association of Japan (FFAJ)

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Global Operations | Locations

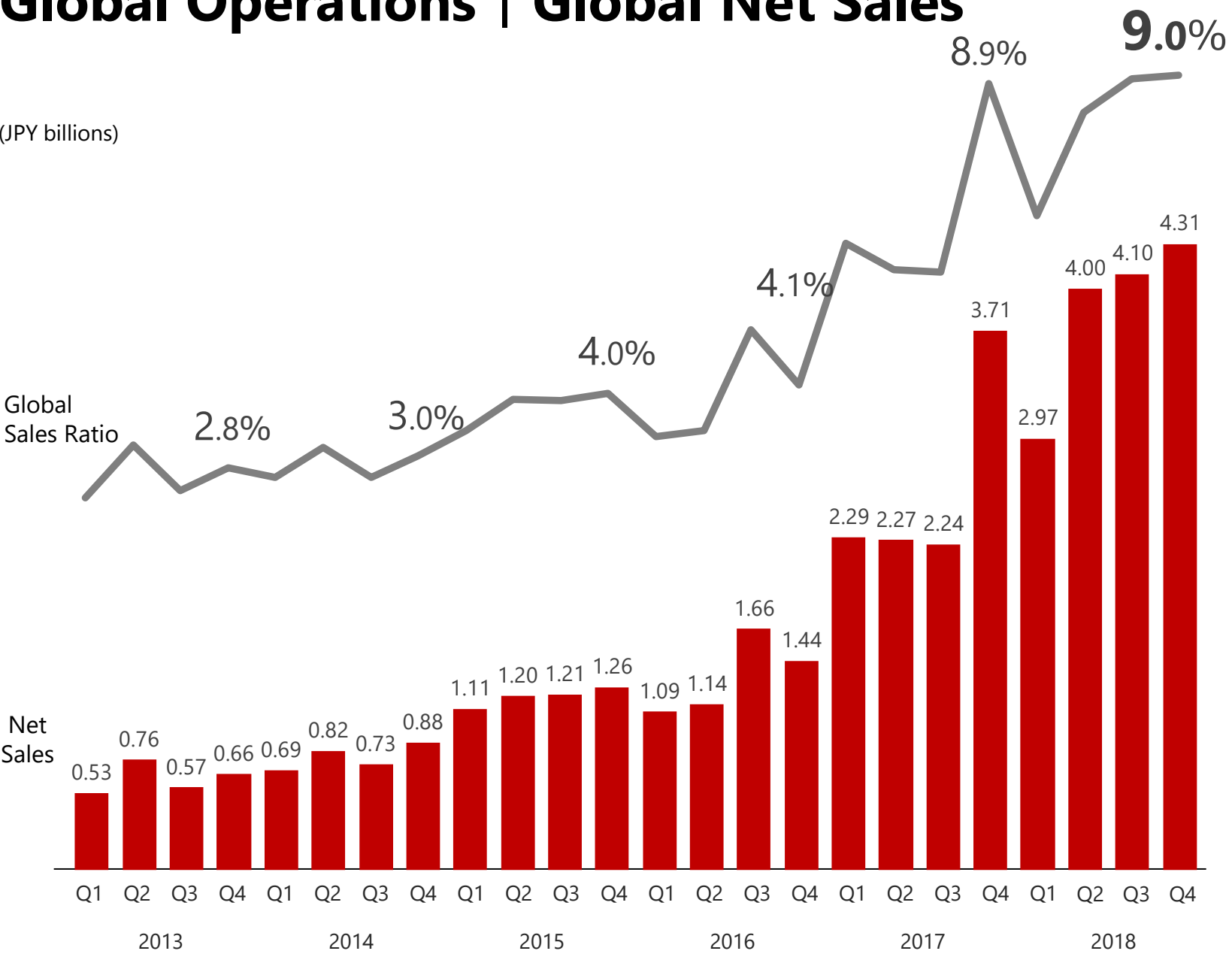
22 countries, 65 locations, 1,329 global partners ("staffs")



*As of December, 2018

Global Operations | Global Net Sales

(JPY billions)



16.2%
YoY growth

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Finance, Payment, and Cryptocurrency

Mining bitcoin BitcoinCash

Exchange **GMO Coin**

Payment **GYEN**

Cryptocurrency

GMO
INTERNET GROUP

Payment

Securities/FX

GMO FINANCIAL HD

▲

大和証券グループ本社
Daiwa Securities Group Inc.

(Daiwa Securities Group Inc.,)
Share acquisition: JPY9.7B (9.37%)

SMBC GMO PAYMENT

▲ **JV established**

三井住友銀行 **GMO PAYMENT GATEWAY**

(Sumitomo Mitsui Banking Corporation)
Investment: JPY3.86B (3.36%)

Launched on July 17, 2018

GMO あおぞらネット銀行
GMO Aozora Net Bank

▲ ▲

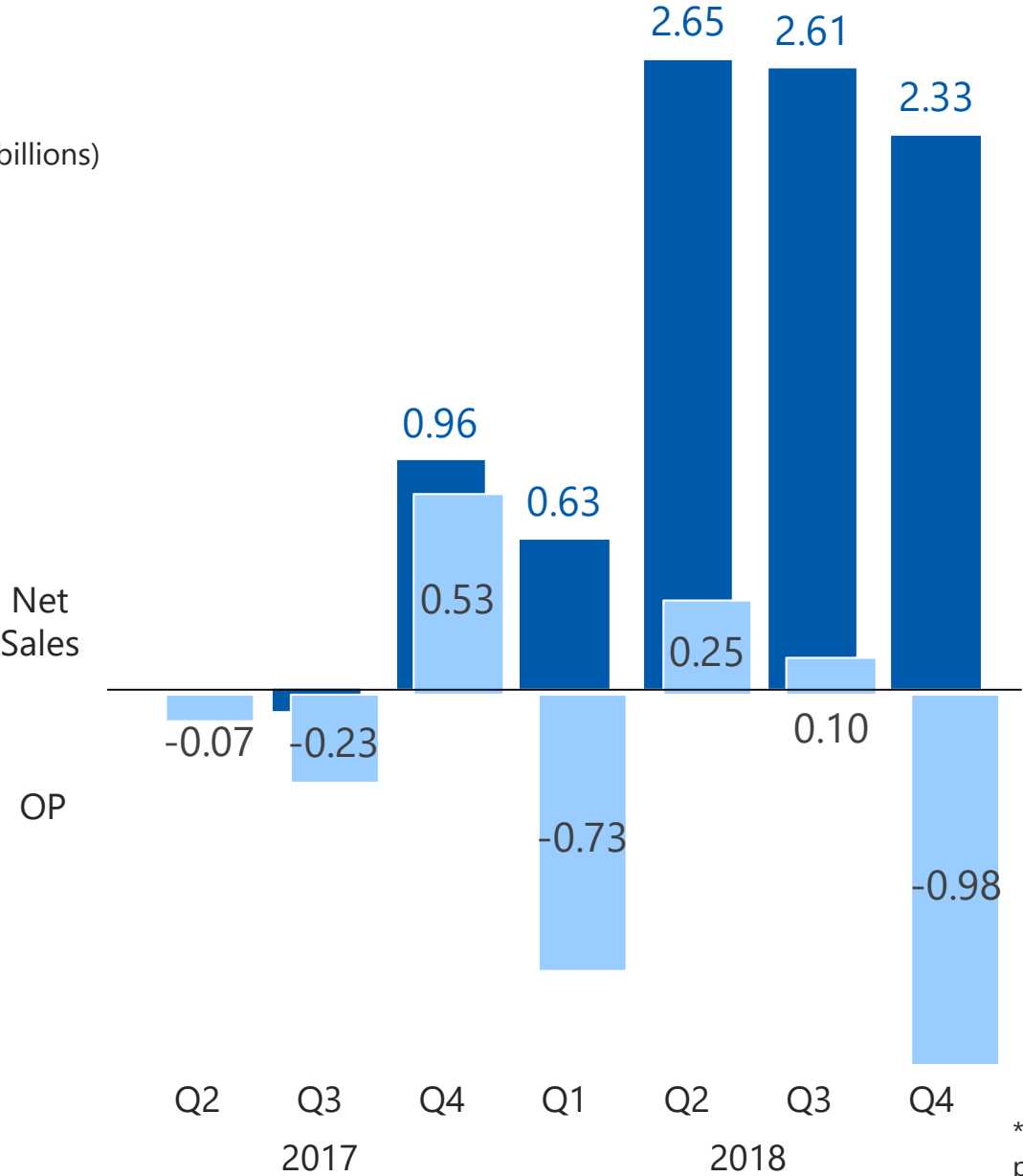
あおぞら銀行 **GMO INTERNET GROUP**

AOZORA (Aozora Bank)
(85.1%) **(14.9%*)**

* Upon obtaining necessary authorization from the relevant authority to become a major shareholder of GMO Aozora Net Bank, the GMO group companies may increase the ratio of voting rights to 50%.

Cryptocurrency business | Historical performance by quarter

(JPY billions)



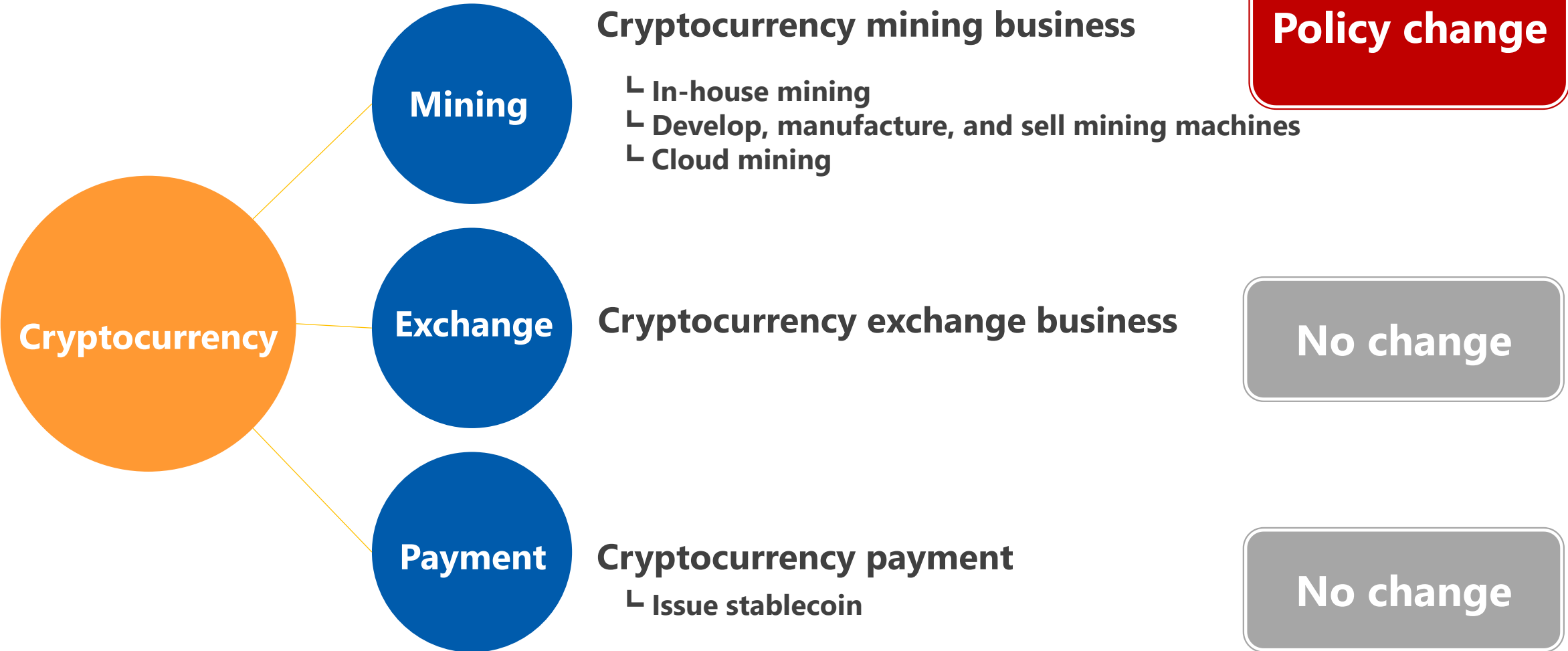
Profitability of the mining business decreased and loss increased



Decided business restructuring

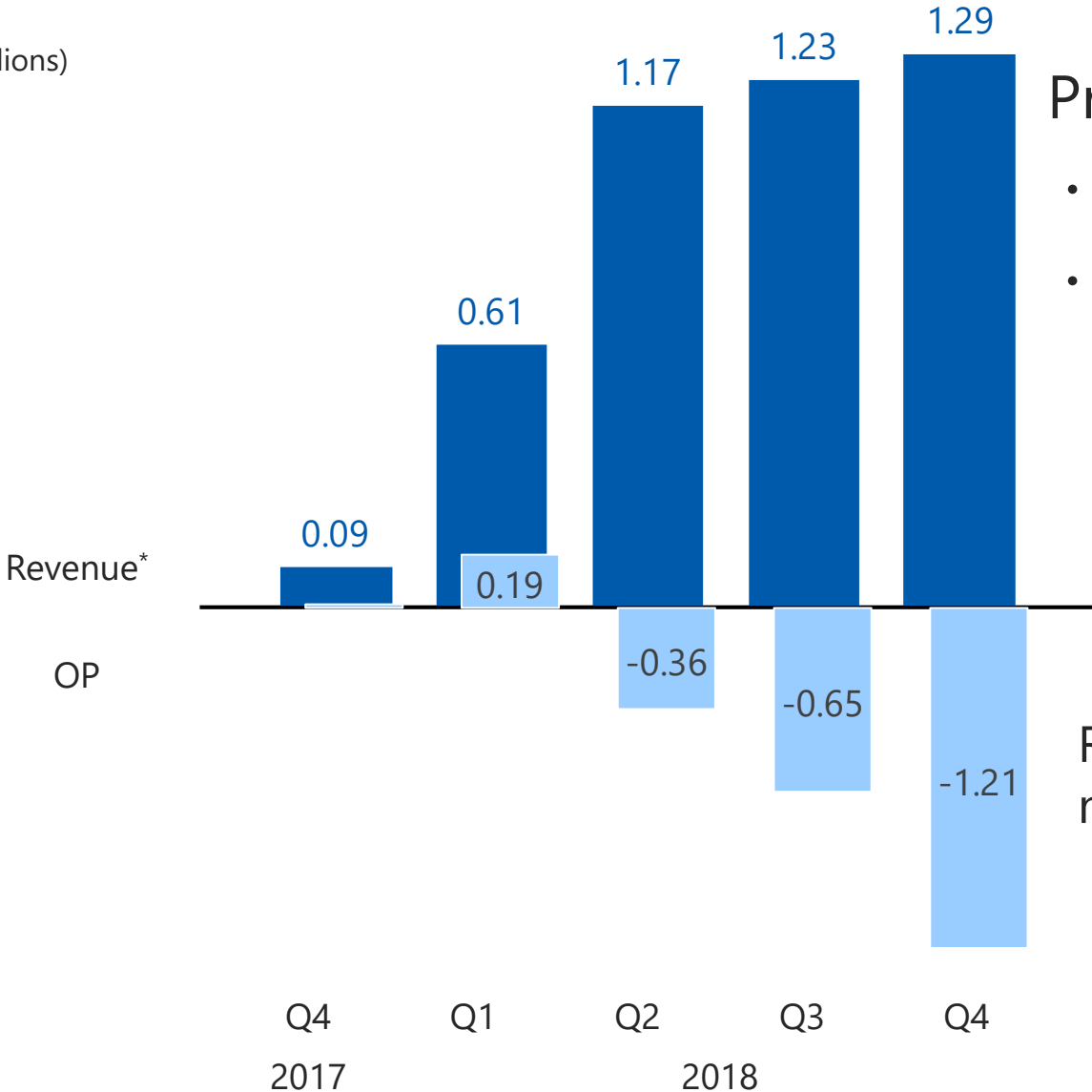
*Press release "Recording Extraordinary Loss Related to The Cryptocurrency Mining Business Restructuring" published on December 25, 2018

Cryptocurrency business | Major policies



Cryptocurrency mining business | Historical performance by quarter

(JPY billions)



Profitability of the mining business decreased

- Decline in the BTC price
- Depreciation cost of mining machines



Record an impairment loss for in-house mining machines (Dec. 25). Profitability will improve in FY2019.

*Gross figure including revaluation gain (loss) of cryptocurrency, which was -0.16B in Q1, +0.06B in Q2, +0.01B in Q3, and -0.01B in Q4.

In-house mining | Restructuring

- Mining share did not increase as expected due to the rise of the global hash rate, which went beyond our initial assumption
- Decline in the BTC price
- Bought expensive mining machines from other manufacturers, which led to decreased profitability

Development, manufacture, and sales of mining machines | Quit

- Environment is increasingly competitive because of the decreased demand mainly due to the decline in the cryptocurrency price, which in turn leads to the decline in the sales price of mining machines from other manufacturers
- Delay in procurement of part of the electronic components, which led to the postponement of development and manufacture of mining machines

In-house mining | Restructuring

- Impairment loss of mining machines: JPY 11.6B
- Relocate the mining center to a region that will allow us to secure cleaner and less expensive power supply



**Increase
profitability**

Development, manufacture, and sales of mining machines | Quit

- Difficult to recover the carrying amounts of the business assets, so it has been decided to record a loss: JPY 23.6B

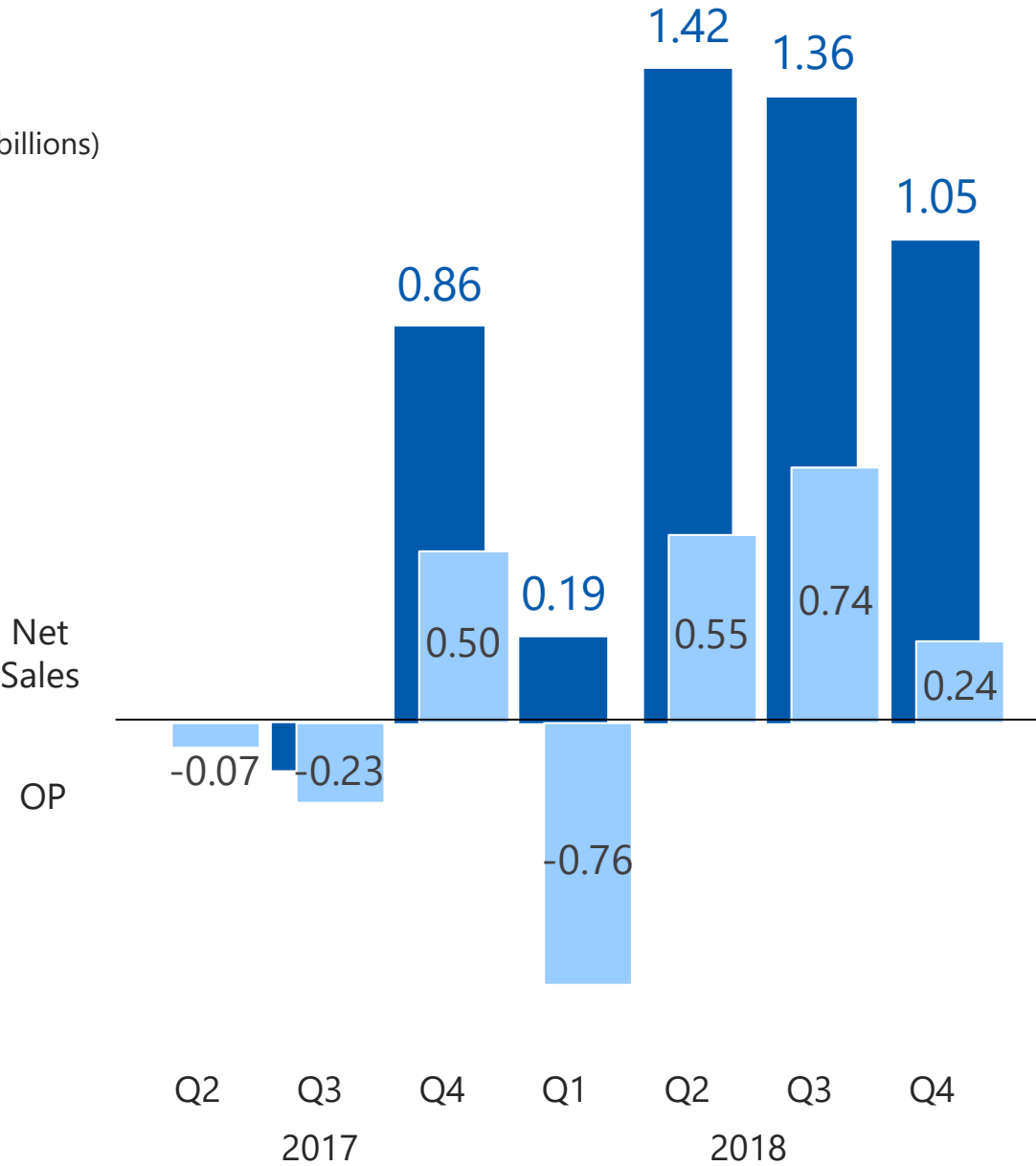


Control risk

Cryptocurrency Exchange business | Historical performance by quarter



(JPY billions)



Profit down

66.7%

QoQ

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Finance, Payment, and Cryptocurrency

Mining *bitcoin* BitcoinCash

Exchange **GMO Coin**

Payment **GYEN**

GMO FINANCIAL HD

▲

大和証券グループ本社
Daiwa Securities Group Inc.

(Daiwa Securities Group Inc.,)
Share acquisition: JPY9.7B (9.37%)

Cryptocurrency

Payment

Securities/FX

Net Bank

GMO
INTERNET GROUP

SMBC GMO PAYMENT

▲ **JV established**

三井住友銀行 **GMO PAYMENT GATEWAY**

(Sumitomo Mitsui Banking Corporation)
Investment: JPY3.86B (3.36%)

Launched on July 17, 2018

GMO あおぞらネット銀行

GMO Aozora Net Bank

▲

あおぞら銀行 **GMO INTERNET GROUP**

(Aozora Bank)

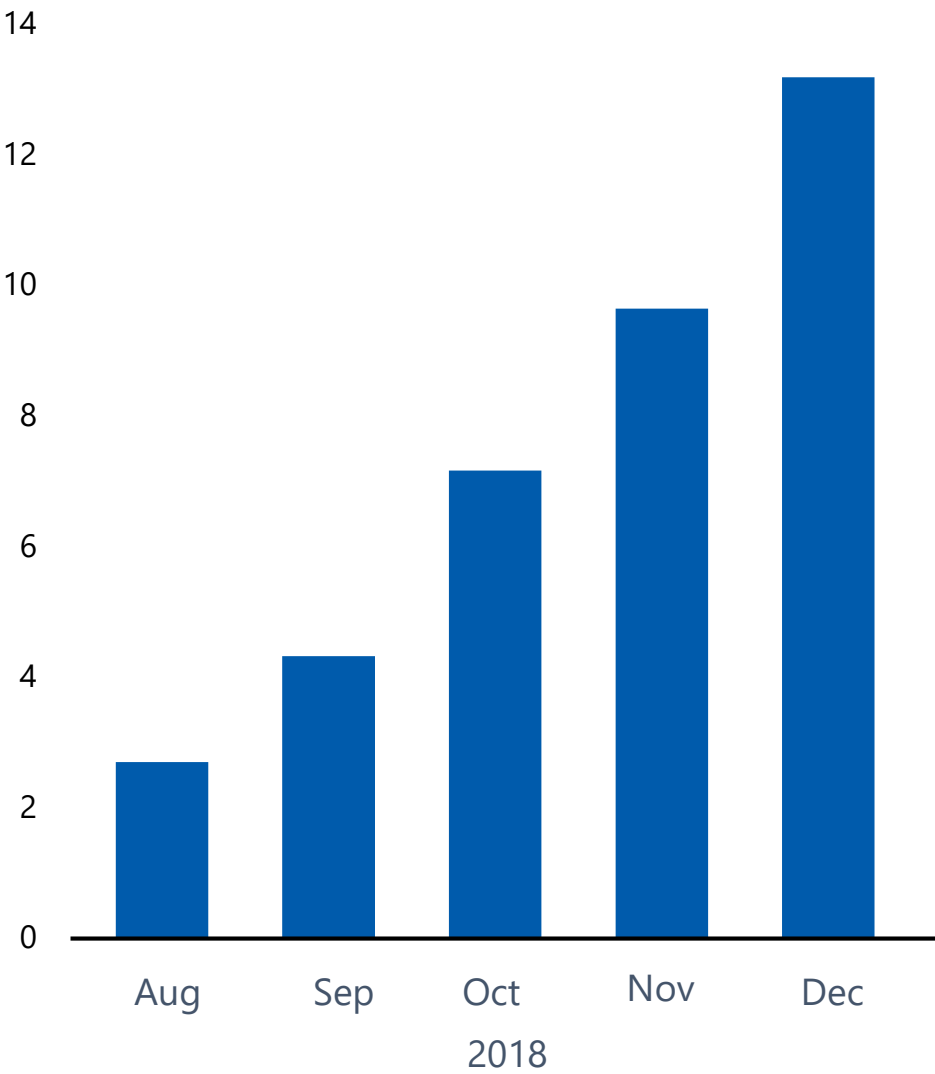
(85.1%) **(14.9%*)**

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Net Bank | Collaboration between banking and securities

GMOCLICK SECURITIES × GMO AOZORA NET BANK

(JPY billions)



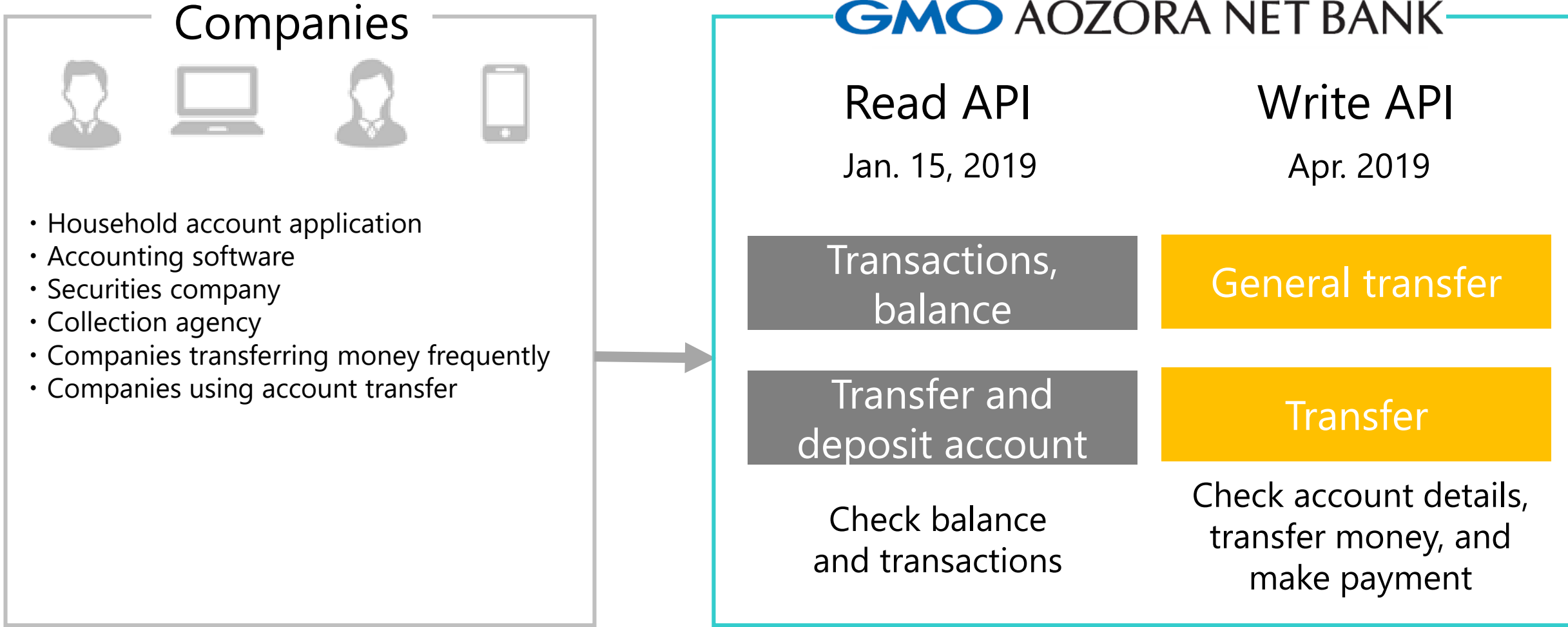
Connected securities account's customer asset balance is expanding: approx.

JPY 13.0B

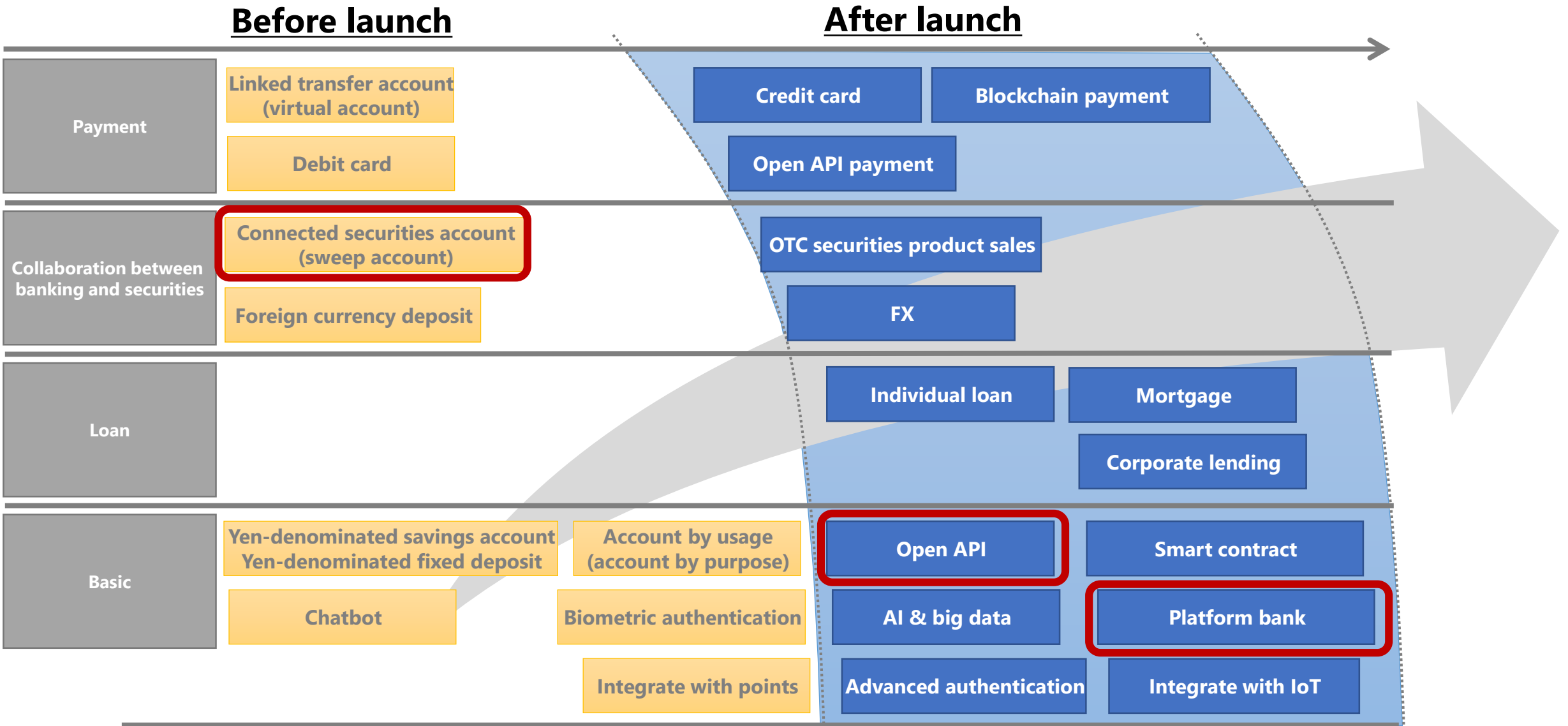
*Source: GMO Financial HD Fiscal Year 2018 4th Quarter Results Presentation. Customer asset balance as of the end of each month.

Net Bank | Provide Open API

Platform bank that integrates with various services through free API disclosure



*Source: GMO Aozora Net Bank press release published on January 15



*Source: GMO Aozora Net Bank launch presentation on July 17, 2018

Internet for Everyone

GMO

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We are planning on making an earnings announcement for FY2019 First Quarter after 3 pm on May 9, 2019.

This document includes projections based on expectations, premises and plans as of February 12, 2019. These projections may differ from actual results due to factors including changes in the global economy, competition, exchange rate fluctuations, market cap of cryptocurrency, natural disasters and other unforeseeable events. Some of the figures given, such as market share are based on our own calculations. These figures may differ from research agency figures.

Information contained in this document is provided for information purposes only and does not constitute solicitation of investors. Further, results forecasts and other forward-looking statements are based on premises that include risks and factors that are largely indeterminable. Please understand that actual results may differ significantly as a result of forces including economic conditions and market environment. No responsibility for any reason is accepted for damage sustained as a result of actions taken based on this information.