

Fiscal Year 2020 Consolidated Financial Results (Japanese GAAP)

February 12, 2021

Name of Listed Company: GMO Internet, Inc.

Exchange Listing: Tokyo Stock Exchange

Stock Code: 9449

URL: <https://www.gmo.jp/en>

Representative: Masatoshi Kumagai, Founder and Group CEO

Official Contact: Masashi Yasuda, Executive Vice President Contact Number: +81-3-5456-2555

Date of Annual General Shareholders Meeting: March 20, 2021 Start Date of Dividend Payout: March 8, 2021

Date of Annual Report Release: March 22, 2021

Supplementary documents available pertaining to financial results: Yes

Financial results briefing: Yes (live stream only and Q&A session for institutional investors)

1. Consolidated Results in the Fiscal Year Ended December 31, 2020 (01.01.2020- 12.31.2020)

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

	Net Sales		Operating Profit		Ordinary Profit		Profit Attributable to Owners of the Parent	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
FYE12/2020	210,559	7.3	27,893	10.3	27,136	10.7	10,284	23.4
FYE12/2019	196,171	5.9	25,279	16.0	24,506	28.1	8,337	—

(Note) Comprehensive Income: FYE 12/2020 ¥ 17,491 million (4.8%), FYE 12/2019 ¥ 16,686 million (- %)

	Net Profit per Share	Net Profit per Share (Diluted)	Ratio of Net Profit to Shareholders' Equity	Ratio of Ordinary Profit to Total Assets	Ratio of Operating Profit to Net Sales
FYE12/2020	¥ 93.00	¥ 91.75	19.6%	2.8%	13.2%
FYE12/2019	73.16	72.08	15.7	3.0	12.9

(Reference) Earnings/Loss on Equity Method Investment: FYE 12/2020 ¥-760 million, FYE 12/2019 ¥-877 million

(2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio	Shareholders' Equity per Share
FYE12/2020	¥ millions 1,070,544	¥ millions 100,114	4.8%	¥ 465.94
FYE12/2019	871,214	102,269	6.2	474.95

(Reference) Shareholders' Equity: FYE 12/2020 ¥50,905 million, FYE 12/2019 ¥53,784 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
FYE12/2020	¥ millions 38,277	¥ millions -15,995	¥ millions 37,518	¥ millions 218,676
FYE12/2019	7,502	-21,617	30,323	159,715

2. Dividends

	Dividends per Share					Total Dividend Payout	Payout Ratio (Consolidated)	Ratio of Dividends to Net Assets (Consolidated)
	End of Q1	End of Q2	End of Q3	End of Term	Total			
FYE12/2019	¥ 6.00	¥ 6.00	¥ 7.20	¥ 5.00	¥ 24.20	¥ millions 2,751	% 33.1	% 5.2
FYE12/2020	6.60	6.20	7.40	10.60	30.80	3,391	33.1	6.5
FYE12/2021 (forecast)	—	—	—	—	—		—	

3. Consolidated Results Forecast for the Year Ending December 31, 2021 (01.01.2021 – 12.31.2021)

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

*Notes

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

New: 1 company (GMO-Z.com Trust Company, Inc.)

Excluded: 1 company (Blog Business Fund Investment Limited Partnership)

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

1. Changes resulting from revisions to accounting standards: No

2. Changes other than those specified above: No

3. Changes in accounting estimates: No

4. Restatements: No

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

1. No. of outstanding shares at end of term (including treasury stock)

2. No. of treasury shares at end of term

3. Average no. of shares during term

FYE 12/2020	113,242,987	FYE 12/2019	113,242,987
FYE 12/2020	3,990,955	FYE 12/2019	1,880
FYE 12/2020	110,587,569	FYE 12/2019	113,963,041

(Reference) Summary of Non-Consolidated Financial Results

1. Non-consolidated Results in the Fiscal Year Ended December 31, 2020 (01.01.2020 - 12.31.2020)

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

	Net Sales		Operating Profit		Ordinary Profit		Net Profit	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
FYE12/2020	64,251	14.7	5	-99.2	7,207	11.6	7,040	53.3
FYE12/2019	56,021	17.3	624	25.1	6,459	1.9	4,592	-63.7

	Net Profit per Share	Net Profit per Share (Diluted)
	¥	¥
FYE12/2020	63.66	—
FYE12/2019	40.30	—

(2) Non-consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net assets per Share
	¥ millions	¥ millions	%	¥
FYE12/2020	111,893	20,184	18.0	184.75
FYE12/2019	72,911	25,328	34.7	223.66

(Reference) Shareholders' Equity: FYE 12/2020 ¥20,184 million, FYE 12/2019 ¥25,328 million

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

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

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

On February 12, 2021, we plan to stream a financial results briefing live. The presentation and explanation (voice) along with explanatory materials used on the day will be posted on our company website (<https://ir.gmo.jp/en/>) promptly after the meeting.

Contents

Contents

1. Overview of Operating Results, etc.	2
(1) Overview of operating results	2
(2) Overview of financial condition	9
(3) Overview of cash flows	10
(4) Future outlook.....	11
(5) Basic policy on profit sharing and dividends for the current and next fiscal year	11
2. Policy Regarding Choice of Accounting Standards	11
3. Consolidated Financial Statements and Major Notes	12
(1) Consolidated balance sheet.....	12
(2) Consolidated statements of income and comprehensive income	14
(3) Consolidated statement of changes in shareholders' equity, etc.	16
(4) Consolidated statement of cash flows	18
(5) Notes to consolidated financial statements.....	20
(Notes regarding going concern assumption).....	20
(Significant items concerning the preparation of the consolidated financial statements).....	20
(Changes in presentation method)	23
(Segment information).....	26
(Per share information).....	30
(Significant subsequent events)	31

1. Overview of Operating Results, etc.

(1) Overview of operating results

◆ Overview of the financial results for the year ended December 31, 2020

Under the corporate slogan “Internet for Everyone,” GMO Internet Group focuses resources on high growth Internet markets. Continued high growth in the Internet market is spurred by increased usage and diversification of smartphones and other mobile devices, the usage of social media, the emergence of new technologies including 5G, cloud, artificial intelligence and blockchain, and new movements such as B2B, C2C, O2O and IoT. In addition, the market is expected to further expand with the growing use of online channel by both business operators and consumers including further promotion of DX (Digital Transformation) driven by the spread of COVID-19. Under such circumstances, GMO Internet management views any growth in the volume of information available on the Internet or in the volume of transactions conducted over the Internet as an opportunity to grow profits as a group that provides Internet and service infrastructure.

Amidst such a business environment, (1) the Internet Infrastructure segment, comprising multiple No. 1 products, showed favorable growth in Ecommerce solutions, Payment and Provider as the use of online channel maintains high-level growth even after the increase in stay-at-home demand driven by the spread of COVID-19. (2) The Online Advertising & Media segment focused on obtaining demand for online consumption as the whole online advertising market was on a recovery trend. (3) In the Internet Finance segment, an aggressive low spread strategy in OTC FX aimed at expansion of domestic transaction shares contributed to an increase in the transaction volume and market share, but net sales decreased. On the other hand, CFD posted a significant increase in net sales against a backdrop of an increase in volatility in commodity future market and stock price index and a strong growth of customer base. (4) In the Cryptoassets segment, while the Cryptoassets exchange business showed strong performance with an increase in altcoin transactions, net sales of the Cryptoassets mining business decreased due to closure of old centers despite a progress in the business restructuring process.

As a result, for the fiscal year ended December 31, 2020, the Group recorded net sales of ¥210,559 million (up 7.3% year-on-year), operating profit of ¥27,893 million (up 10.3% year-on-year), ordinary profit of ¥27,136 million (up 10.7% year-on-year), and net profit attributable to owners of the parent of ¥10,284 million (up 23.4% year-on-year).

(Unit: ¥millions)

	Previous Fiscal Year	Current Fiscal Year	Change	% Change
Net Sales	196,171	210,559	14,387	7.3%
Operating Profit	25,279	27,893	2,614	10.3%
Ordinary Profit	24,506	27,136	2,630	10.7%
Profit Attributable to Owners of the Parent	8,337	10,284	1,946	23.4%

Net sales and Operating profit by segment for the consolidated fiscal year ended December 31, 2020

(Unit: ¥millions)

	Previous Fiscal Year	Current Fiscal Year	Change	% Change
Internet Infrastructure				
Net Sales	114,076	131,273	17,197	15.1%
Operating Profit	14,060	16,287	2,226	15.8%
Online Advertising & Media				
Net Sales	46,812	46,862	50	0.1%
Operating Profit	549	422	-126	-23.1%
Internet Finance				
Net Sales	28,570	30,852	2,282	8.0%
Operating Profit	8,513	10,617	2,103	24.7%
Cryptoassets				
Net Sales	6,072	6,730	658	10.8%
Operating Profit	958	769	-189	-19.8%
Incubation				
Net Sales	3,910	1,001	-2,908	-74.4%
Operating Profit	2,530	102	-2,428	-96.0%
Other				
Net Sales	1,933	1,087	-845	-43.7%
Operating Profit	-1,418	-360	1,057	—
Adjustment				
Net Sales	-5,202	-7,249	-2,046	—
Operating Profit	84	55	-29	—
Total				
Net Sales	196,171	210,559	14,387	7.3%
Operating Profit	25,279	27,893	2,614	10.3%

Segment results for the year ended December 31, 2020 are as follows. In line with the revision of the term “Cryptocurrency” to “Cryptoasset” in the Revisions to the Payment Services Act which came into force on May 1, 2020 (“Revised Payment Services Act”), the Group changed its segment name to “Cryptoassets.”

1) Internet Infrastructure

The Internet Infrastructure segment provides basic and service infrastructure for customers operating business in an online environment. Domain, hosting & cloud, ecommerce solutions, payment and security - the five major businesses in this segment – are all developed and offered in-house and each holds top share in their respective markets in Japan. In addition, the segment includes the provider business offering Internet provider services to consumers. Also, during the year ended December 31, 2020, our electronic contract service “GMO Electronic Seal Agree” (the service name will be changed to “Electronic Seal GMO Sign” effective February 12, 2021) achieved top share in the domestic market as the number of customers surged thanks to the promotion of telework by the government following the spread of COVID-19. The following is a breakdown of results in each of the businesses comprising this segment.

i. Domain

Gateway to the Group’s infrastructure segment, the domain business continued to actively grow customer base with a low-pricing strategy. The number of domain registration and renewals during the year ended December 31, 2020 was 5.20 million (down 8.4% year-on-year), and total number of domains under management as of

December 31, 2020 was 6.58 million (down 6.8% year-on-year). However, net sales were ¥9,543 million (up 5.2% year-on-year) due to an increase in option sales.

ii. Hosting & Cloud

The hosting & cloud business responds to growing diversification of client needs through shared, dedicated, VPS and cloud-based offerings under a multi-brand strategy. The number of web hosting contracts as of December 31, 2020 was 960 thousand (up 10.0% year-on-year) and net sales were ¥15,159 million (up 5.5% year-on-year) thanks to cross-selling from the Domain segment.

iii. Ecommerce solutions

Ecommerce solutions comprises SaaS based services that provide platforms for online stores, and C2C handmade market, *minne*, original merchandise production/sales service, *SUZURI*, and O2O support service. All services showed favorable growth as the use of online channel maintains high-level growth even after the increase in stay-at-home demand driven by the spread of COVID-19. In the SaaS based services, the number of paid stores as of December 31, 2020 increased by 1.1% year-on-year to 64 thousand, and total transaction volume increased by 35.7% year-on-year to ¥418.2 billion. *minne* showed a strong growth with total transaction volume of ¥14.9 billion (up 24.5% year-on-year) thanks to sales promotional activities with coupons and campaigns. The transaction volume of *SUZURI* sharply increased as a platform to sell original merchandise of creators (e.g. a successful sale of T-shirts in August). As a result, net sales amounted to ¥14,868 million (up 25.7% year-on-year).

iv. Security

In this sub-segment, GMO GlobalSign, a consolidated subsidiary of GMO GlobalSign Holdings, is offering a security brand "GlobalSign" worldwide, and direct sales targeting large corporations and use of sales partners are driving market share growth both in Japan and globally with the benefit of the penetration of Always-On SSL. During the year ended December 31, 2020, the segment was temporarily affected by the industry rule change aimed at improving security which shortens the certificate lifespan from two years to one year, resulting in a decline in the unit price. The impact of this lifespan change is expected to taper off in one year from September 2020 and level out after August 2021. As a result, Security reported net sales of ¥6,359 million (up 0.3% year-on-year), with overseas sales ratio of over 60%.

v. Payment

Payment services are mainly operated by GMO Payment Gateway and offer comprehensive payment-related service and finance-related services. The settlement agency service posted an increase in net sales due to favorable growth of online/recurring payments in the Ecommerce market as well as the expansion of our service for face-to-face payments. The finance-related service also posted an increase in net sales due to strong growth in the transaction volume of our deferred payment service "GMO Payment After Delivery." As a result, the number of transactions and the transaction volume increased, and net sales increased to ¥37,411 million (up 12.3% year-on-year).

vi. Provider

This sub-segment operates Internet provider services for consumers. Due to an increase in telework demand and successful internet marketing efforts, the number of subscriptions as of December 31, 2020 significantly increased to 2.15 million (up 19.5% year-on-year) and net sales also largely increased to ¥41,709 million (up 24.1% year-on-year).

As a result, overall net sales of the Internet Infrastructure segment amounted to ¥131,273 million (up 15.1% year-on-year). Operating profit increased significantly to ¥16,287 million (up 15.8% year-on-year).

2) Online Advertising & Media

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

i. Online Advertising

This sub-segment provides comprehensive Internet advertising services such as advertising agency and ad platform mainly through GMO AD Partners and GMO TECH. The advertising agency service was successful in obtaining demand for online consumption as the whole online advertising market was on a recovery trend although there was a decrease in orders from certain customers hit by a decline in real demand. The traffic volume of in-house ad network products, such as *AkaNe*, an ad network for smartphones, and *ReeMo*, an ad distribution platform (DSP) specialized in collecting users most likely to be interested in the contents, increased due to increased internet usage. As a result, net sales amounted to ¥33,188 million (up 2.2% year-on-year).

ii. Internet Media

This sub-segment provides advertising space through operation of our own media and the marketing support services mainly through GMO Media. Net sales were ¥10,310 million (down 6.9% year-on-year) due to a decline in advertisement unit price despite a solid increase in the number of website visitors.

Overall, the Online Advertising & Media segment recorded net sales of ¥46,862 million (up 0.1% year-on-year), and operating profit of ¥422 million (down 23.1% year-on-year).

3) Internet Finance

The Internet Finance segment provides online financial services for retail investors mainly through GMO Click Securities, a consolidated subsidiary of GMO Financial Holdings. The customer base continued to expand, with the number of OTC FX accounts increasing to 910 thousand (up 7.0% year-on-year), the number of securities accounts increasing to 456 thousand (up 9.8% year-on-year) and the number of CFD accounts increasing to 147 thousand (up 24.7% year-on-year). We launched an aggressive low spread strategy for our mainstay product OTC FX aimed at expansion of domestic transaction share. As a result, net sales decreased but the market share is showing an upward trend. For CFD, we have implemented measures to boost promotion with an aim to grow the product into our new revenue source, and both the transaction volume and net sales significantly increased against the background of expanded customer base, movements in stock index, and the condition of the commodity market such as crude oil and gold.

Overall, the Internet Finance segment recorded net sales of ¥30,852 million (up 8.0% year-on-year) and operating profit of ¥10,617 million (up 24.7% year-on-year).

4) Cryptoassets

The Cryptoassets segment operates business pertaining to “mining,” “exchange” and “payment” of cryptoassets. Performance of each business is as follows.

i. Cryptoassets mining

The Cryptoassets mining business runs mining centers. As the business restructuring process progressed, only new centers are in operation from Q3 of FY2020. As a result of a decline in the Company’s hash rate due to

closure of old centers and a decline in profitability due to a Bitcoin halving event, net sales decreased to ¥1,338 million (down 37.5% year-on-year).

ii. Cryptoassets exchange

In this business, GMO Coin, a consolidated subsidiary of GMO Financial Holdings, is engaged in spot trading and leveraged transactions of cryptoassets. The customer base expanded with the number of customer accounts as of December 31, 2020 increasing to 341 thousand (up 14.0% year-on-year). Due to an increase in transaction volume and a growth in newly introduced altcoin transactions, net sales increased to ¥5,392 million (up 37.2% year-on-year).

Overall, the Cryptoassets segment recorded net sales of ¥6,730 million (up 10.8% year-on-year) and operating profit of ¥769 million (down 19.8% year-on-year) due to advance investment associated with the launch of the cryptoassets payment business.

5) Incubation

This segment is engaged in investing in internet related companies aimed at capital gains, supporting business expansion, and supporting corporate value improvement. Net sales were ¥1,001 million (down 74.4% year-on-year), and operating profit was ¥102 million (down 96.0% year-on-year) as gain on sale of shareholdings in relation to investees' IPO was recorded for the year ended December 31, 2019.

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

(Unit: ¥millions)

	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Net Sales	49,157	53,699	52,800	50,810	53,248
Operating Profit	5,348	8,283	8,137	6,097	5,374
Ordinary Profit	5,215	8,056	7,963	5,883	5,233
Profit Attributable to Owners of the Parent	1,722	2,256	1,925	2,560	3,542
Total Assets	871,214	902,495	941,795	978,555	1,070,544
Shareholders' Equity	53,784	54,309	46,516	48,185	50,905

(Reference 2) Quarterly Results by Segment/Business

(Unit: ¥millions)

I Net Sales by Segment

	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Internet Infrastructure					
Provider (ISP)	8,841	9,248	10,524	10,892	11,043
Domain	2,255	2,394	2,427	2,375	2,345
Hosting & cloud	3,602	3,740	3,726	3,810	3,881
Ecommerce solutions	2,985	3,250	3,687	3,956	3,973
Security	1,655	1,647	1,651	1,574	1,486
Payment	9,042	9,303	9,471	8,896	9,740
Other	1,223	1,729	2,093	1,308	1,091
Total	29,607	31,313	33,582	32,815	33,562
Online Advertising & Media					
Online advertising	8,285	8,587	7,799	8,165	8,636
Internet media	2,666	2,840	2,248	2,437	2,783
Internet research and other	895	903	694	781	983
Total	11,847	12,331	10,742	11,385	12,403
Internet Finance					
Total	6,740	9,156	9,067	6,540	6,087
Cryptoassets					
Cryptoassets exchange	842	1,210	629	1,402	2,150
Cryptoassets mining	254	224	220	263	629
Total	1,096	1,435	849	1,666	2,779
Incubation					
Total	951	739	233	28	—
Sub total	50,242	54,976	54,475	52,435	54,833
Other	328	289	255	244	298
Adjustment	-1,413	-1,566	-1,930	-1,869	-1,883
Net Sales	49,157	53,699	52,800	50,810	53,248

II Operating Profit by Segment

	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Internet Infrastructure	3,099	3,871	4,674	4,017	3,723
Online Advertising & Media	142	176	-53	43	255
Internet Finance	1,808	3,395	3,813	1,776	1,631
Cryptoassets	86	426	-260	384	219
Incubation	485	448	15	-59	-302
Sub total	5,622	8,319	8,189	6,162	5,527
Other	-301	-85	-59	-65	-150
Adjustment	27	49	8	0	-2
Operating Profit	5,348	8,283	8,137	6,097	5,374

(Reference 3) Description of businesses in each segment

Business Segment		Main Operations
Internet Infrastructure	Domain	<ul style="list-style-type: none"> • Domain registry services including “shop” and “tokyo” • Domain registrations services: Onamae.com, MuuMuu Domain, and VALUE-DOMAIN
	Hosting & Cloud	<ul style="list-style-type: none"> • Provision, operation, management, and maintenance of shared, VPS, dedicated and cloud-based web hosting services including Onamae.com Rental Server, ConoHa by GMO, Z. com Cloud, GMO Cloud VPS, GMO Cloud ALTUS, GMO Cloud Private, Lolipop!, heteml, and 30days Album • Electronic contract service “GMO Electronic Seal Agree” (the service name will be changed to “Electronic Seal GMO Sign” effective February 12, 2021)
	Ecommerce Solutions	<ul style="list-style-type: none"> • SaaS based services for online store building including Color me shop and MakeShop. • Operation of C2C handmade marketplace “minne” • Operation of production/sales service of original merchandise including SUZURI and canvath • Operation of ecommerce/O2O support services, etc. • Web design, operational support and system consulting, etc.
	Security	<ul style="list-style-type: none"> • DomainSSL, OrganizationSSL, and other SSL certificates, code signing certificates, PDF document signing, client certificates and other digital certificate services
	Payment	<ul style="list-style-type: none"> • PG Multi-Payment Service for mail order and ecommerce business, comprehensive payment processing services for public sector, and finance-related service including early payment service, transaction lending, and GMO payment after delivery
	Provider	<ul style="list-style-type: none"> • GMO TokuToku BB and other Internet provider services.
Online Advertising & Media	Online advertising	<ul style="list-style-type: none"> • Comprehensive online advertising service including listing, mobile and ad networks, reward, and affiliate advertising. • Advertising planning and production
	Internet media	<ul style="list-style-type: none"> • Operation of online media such as community site for teenage girls “prican,” programming educational portal “coeteko,” point site “Point Town,” game platform “gesoten,” joint purchase coupon site “Kumapon,” aesthetic medical ticket purchase site “KIREIPASS,” and blog service “JUGEM” and ad distribution to own media • SEM Media: Sales of SEO.
	Internet research and other	<ul style="list-style-type: none"> • Provision of Internet research systems, management and operation of online research panel including GMO Research Cloud Panel
Internet Finance	Internet finance	<ul style="list-style-type: none"> • Operation of online securities trading, FX trading services, CFD transactions, etc.
Cryptoassets	Cryptoassets exchange	<ul style="list-style-type: none"> • Spot trading and leveraged transactions of cryptoassets
	Cryptoassets mining	<ul style="list-style-type: none"> • Operation of mining centers
Incubation	Venture capital	<ul style="list-style-type: none"> • Investment in private Internet startups

(2) Overview of Financial Condition

Assets, Liabilities and Net Assets

(Assets)

As of December 31, 2020, total assets increased ¥199,330 million (22.9%) from December 31, 2019 to ¥1,070,544 million. Major factors included an increase of ¥88,820 million (17.6%) in various assets due to fluctuations in customer assets in the Finance segment, etc. (deposits, margin transaction assets, loan secured by securities, short term guarantee deposits, and variation margin paid), an increase of ¥60,429 million (37.7%) in cash and deposits, and an increase of ¥26,016 million (149.5%) in customers' cryptoassets.

(Liabilities)

As of December 31, 2020, liabilities increased ¥201,485 million (26.2%) from December 31, 2019 to ¥970,429 million. Major factors included an increase of ¥64,503 million (14.5%) in various liabilities due to fluctuations in customer assets in the Finance segment, etc. (deposits received, margin transaction liability, guarantees received, variation margin received, and debt secured by securities), an increase of ¥57,608 million (43.0%) in debt, an increase of ¥31,090 million (40.7%) in deposits received, and an increase of 26,016 million (149.5%) in cryptoassets received.

(Net Assets)

As of December 31, 2020, net assets decreased ¥2,154 million (2.1%) from December 31, 2019 to ¥100,114 million. Major factors included an increase of ¥9,363 million in treasury stock due to acquisition of treasury stock (balance as of December 31, 2019 was ¥3 million), an increase of ¥7,485 million (38.4%) in earned surplus (consisting mainly of an increase from recording profit attributable to owners of the parent totaling ¥10,284 million and a decrease from dividend payments of ¥2,799 million), and an increase of ¥735 million (1.5%) in non-controlling interests.

(3) Overview of Cash Flows

Cash Flow

As of December 31, 2020, cash and equivalents increased ¥58,961 million (36.9%) from December 31, 2019 to ¥218,676 million. The following is a summary of cash flow activity during the year ended December 31, 2020.

(Cash Flow from Operating Activities)

Inflow in operating activities was ¥38,277 million (¥7,502 million of inflow in FY2019). Major inflow included net profit before adjustment for tax, etc. (¥29,926 million) and an increase in deposits received (¥31,092 million). Major outflow included payment of corporate taxes, etc. (¥4,827 million), a decrease in trade payables (¥4,944 million) and an increase in various assets due to increased customer assets in the Internet Finance segment (¥24,316 million).

(Cash Flow from Investing Activities)

Outflow from investing activities totaled ¥15,995 million (¥21,617 million of outflow in FY2019). Major outflow included acquisition of tangible fixed assets (¥3,506 million), acquisition of investment securities (¥10,319 million), and acquisition of intangible fixed assets (¥3,980 million).

(Cash Flow from Financing Activities)

Inflow from financing activities totaled ¥37,518 million (¥30,323 million of inflow in FY2019). Major outflow included dividend payments (¥2,803 million), dividend payments to non-controlling interests (¥4,758 million), and acquisition of treasury stock (¥9,363 million). Major inflow included changes in long and short term debt (¥58,319 million).

(Reference) Cash Flow Indicators

	FYE12/2016	FYE12/2017	FYE12/2018	FYE12/2019	FYE12/2020
Shareholders' equity ratio (%)	6.7	5.8	7.0	6.2	4.8
Shareholders' equity ratio (market value) (%)	29.4	29.5	22.5	27.0	31.3
Ratio of cash flow to Interest-bearing liabilities (years)	18.6	17.5	8.7	17.8	4.8
Interest coverage ratio (times)	6.9	11.5	19.3	9.6	33.5

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 the number of outstanding shares excluding treasury stock.

(*3) Cash flow refers to operating cash flow.

(*4) Interest-bearing liabilities include all liabilities on the consolidated balance sheet on which interest is payable.

(4) Future outlook

As the Group's business "Internet Finance business," "Cryptoassets business" and "Incubation business" are affected by economic conditions, financial markets, cryptoassets and other market conditions, it is difficult to forecast business performance, and therefore we do not disclose consolidated business results and dividend forecast. Instead, GMO Financial Holdings Co., Ltd., our subsidiary, discloses sales indicators, such as foreign exchange transaction volume, stock brokerage trading volume, CFD trading volume, cryptoasset trading volume and the number of customer account, and operating revenue on a monthly basis.

Meanwhile, we expect other businesses mainly "Internet Infrastructure" to grow steadily on the grounds that the usage of online channel maintains high-level growth even after the increase in stay-at-home demand driven by the spread of COVID-19 and that the customer base continues expanding, while making investments to our electronic contract service "GMO Electronic Seal Agree" (the service name will be changed to "Electronic Seal GMO Sign" effective February 12, 2021) having the potential for further market growth.

(5) Basic policy on profit sharing and dividends for the current and next fiscal years

GMO Internet demonstrates a clear commitment toward returning value to shareholders through its dividend policy. Under the policy, the Company aims to return 50% of profits to shareholders. The Company's target dividend payout ratio is a minimum of 33% of consolidated net profit (net profit attributable to owners of the parent) while we will aim to allocate 50% of consolidated net profit (net profit attributable to owners of the parent) net of total dividends to the acquisition of treasury stock after taking into consideration business results and financial condition, and taking a flexible approach in accordance with share price. We have also adopted a quarterly dividend system to enable prompt profit return to shareholders.

The Company will pay annual dividend of ¥30.8 per share (dividend payout ratio: 33.1%) for the year ended December 31, 2020.

As it is difficult to forecast business results as explained above, we will not disclose dividend forecast for the next fiscal year but intend to pay dividends in accordance with the above policy.

2. Policy regarding choice of accounting standards

GMO Internet Group prepares its consolidated financial statements based on Japanese GAAP in consideration of comparability between periods and with other companies.

Regarding the application of IFRS, we will take appropriate actions in consideration of domestic and international trends.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2019)	Current Fiscal Year (As of Dec 31, 2020)
Assets		
Current Assets		
Cash and deposits	160,315	220,745
Trade notes and accounts receivable	22,140	24,955
Operational investment securities	7,732	7,617
Owned cryptoassets	3,781	9,461
Cryptoassets under custody	17,404	43,421
Securities segment deposits	308,037	372,163
Securities segment margin transaction assets	98,246	100,723
Securities segment loan secured by securities	9,531	9,703
Securities segment short term guarantee deposits	51,906	61,762
Securities segment variation margin paid	37,932	50,121
Other	97,083	107,931
Provision for doubtful debts	-3,029	-3,380
Total Current Assets	811,083	1,005,226
Fixed Assets		
Tangible fixed assets		
Buildings and structures (net)	5,258	5,032
Tools and equipment (net)	7,491	5,874
Lease assets (net)	3,035	3,081
Other (net)	332	500
Total tangible fixed assets	16,118	14,488
Intangible fixed assets		
Goodwill	2,778	657
Software	6,836	7,924
Other	6,975	6,418
Total intangible fixed assets	16,590	14,999
Investments and other assets		
Investment securities	9,881	18,838
Deferred tax asset	6,540	5,808
Other	15,169	11,689
Provision for doubtful debts	-4,169	-506
Total investments and other assets	27,420	35,830
Total Fixed Assets	60,130	65,318
Total Assets	871,214	1,070,544

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2019)	Current Fiscal Year (As of Dec 31, 2020)
Liabilities		
Current liabilities		
Trade notes and accounts payable	10,390	10,512
Short term debt	117,516	169,312
Current portion of long term debt	4,695	10,634
Amount payable	36,405	41,102
Deposits received for Cryptoassets	17,404	43,421
Securities segment deposits received	52,586	50,555
Securities segment margin transaction liability	35,496	28,487
Securities segment guarantees received	338,161	405,252
Securities segment variation margin received	3,506	3,239
Securities segment debt secured by securities	14,849	21,570
Accrued corporate tax etc.	2,141	5,765
Provision for bonuses	1,733	2,748
Provision for bonuses to directors	74	1,022
Advance payment received	9,645	11,161
Deposits received	76,378	107,468
Other	10,730	21,089
Total Current Liabilities	731,716	933,345
Fixed Liabilities		
Convertible bonds with equity warrants	17,348	16,698
Long term debt	11,866	11,739
Deferred tax liability	134	163
Other	6,646	7,289
Total Fixed Liabilities	35,996	35,891
Statutory Reserve		
Financial instruments transaction liability reserve	1,231	1,192
Total Statutory Reserve	1,231	1,192
Total Liabilities	768,944	970,429
Net Assets		
Shareholders' Equity		
Capital stock	5,000	5,000
Capital surplus	27,332	27,574
Earned surplus	19,474	26,959
Treasury stock	-3	-9,366
Total Shareholders' Equity	51,803	50,167
Accumulated Other Comprehensive Income		
Other securities valuation differences	968	1,184
Deferred hedging profit/loss	6	-9
Foreign currency translation adjustments	1,005	-437
Total Accumulated Other Comprehensive Income	1,981	738
Equity Warrants	78	67
Non-Controlling Interests	48,405	49,140
Total Net Assets	102,269	100,114
Total Liabilities and Net Assets	871,214	1,070,544

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2019-12.31.2019)	Current Fiscal Year (01.01.2020-12.31.2020)
Net Sales	196,171	210,559
Cost of Sales	100,378	104,883
Gross Profit on Sales	95,793	105,675
Sales, General & Administrative Expenses	70,514	77,782
Operating Profit	25,279	27,893
Non-Operating Revenue		
Interest received	144	286
Dividends received	86	90
Gain on investments in partnership	25	284
Gain on deposit settlement	90	134
Other	416	449
Total Non-Operating Revenue	763	1,245
Non-Operating Expenses		
Interest paid	190	390
Currency translation loss	148	658
Equity method investment loss	877	760
Other	320	191
Total Non-Operating Expenses	1,535	2,002
Ordinary Profit	24,506	27,136
Extraordinary Profit		
Gain on sale of investment securities	57	7,796
Reversal of financial instruments transaction liability reserve	355	38
Gain on reversal of loss on cryptoassets mining business restructuring	871	—
Gain on change in equity	481	31
Other	167	1,296
Total Extraordinary Profit	1,933	9,163
Extraordinary Loss		
Loss on valuation of investment securities	619	1,143
Impairment loss	2,476	3,787
Loss on sale of stock in subsidiaries and affiliates	—	462
Other	723	980
Total Extraordinary Loss	3,819	6,373
Net Profit Before Adjustment for Tax etc.	22,621	29,926
Corporate, Municipal and Enterprise Taxes	8,006	10,865
Corporate Tax etc. Adjustment	-1,752	393
Total Corporate Taxes etc.	6,253	11,258
Net Profit	16,367	18,667
Profit Attributable to Non-Controlling Interests	8,029	8,383
Profit Attributable to Owners of the Parent	8,337	10,284

Consolidated Statement of Comprehensive Income

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2019-12.31.2019)	Current Fiscal Year (01.01.2020-12.31.2020)
Net Profit	16,367	18,667
Other Comprehensive Income		
Other securities valuation differences	346	364
Deferred hedging profit/loss	6	-16
Foreign currency translation adjustments	296	-1,677
Share of other comprehensive income of affiliates accounted for using equity method	-329	152
Total other comprehensive income	319	-1,176
Comprehensive Income	16,686	17,491
(Breakdown)		
Comprehensive income attributable to Owners of the Parent	8,547	9,041
Comprehensive income attributable to Non- controlling Interests	8,139	8,449

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

Previous Fiscal Year (01.01.2019 – 12.31.2019)

(Unit: ¥millions)

	Shareholders' equity				
	Capital	Capital surplus	Earned surplus	Treasury stock	Total shareholders' equity
Beginning balance	5,000	30,981	14,678	-7	50,651
Changes during the year					
Dividends			-3,543		-3,543
Profit attributable to owners of the parent			8,337		8,337
Acquisition of treasury stock				-3,110	-3,110
Retirement of treasury stock		-3,109		3,109	—
Disposition of treasury stock		-2		5	3
Increases in earned surplus due to increases in consolidated subsidiaries			1		1
Changes in the parent's interests due to transactions with non-controlling interests		-537			-537
Changes in items other than shareholders' equity during the year (net)					
Total changes during the year	—	-3,648	4,795	4	1,151
Ending balance	5,000	27,332	19,474	-3	51,803

(Unit: ¥millions)

	Accumulated other comprehensive income				Equity warrants	Non-controlling interests	Total net assets
	Other securities valuation differences	Deferred hedging profit/loss	Foreign currency translation adjustments	Total accumulated other comprehensive income			
Beginning balance	789	0	981	1,771	77	43,920	96,421
Changes during the year							
Dividends							-3,543
Profit attributable to owners of the parent							8,337
Acquisition of treasury stock							-3,110
Retirement of treasury stock							—
Disposition of treasury stock							3
Increases in earned surplus due to increases in consolidated subsidiaries							1
Changes in the parent's interests due to transactions with non-controlling interests							-537
Changes in items other than shareholders' equity during the year (net)	179	6	24	210	1	4,484	4,696
Total changes during the year	179	6	24	210	1	4,484	5,847
Ending balance	968	6	1,005	1,981	78	48,405	102,269

Current Fiscal Year (01.01.2020 – 12.31.2020)

(Unit: ¥millions)

	Shareholders' equity				
	Capital	Capital surplus	Earned surplus	Treasury stock	Total shareholders' equity
Beginning balance	5,000	27,332	19,474	-3	51,803
Changes during the year					
Dividends			-2,799		-2,799
Profit attributable to owners of the parent			10,284		10,284
Acquisition of treasury stock				-9,363	-9,363
Retirement of treasury stock					—
Disposition of treasury stock					—
Increases in earned surplus due to increases in consolidated subsidiaries					—
Changes in the parent's interests due to transactions with non-controlling interests		242			242
Changes in items other than shareholders' equity during the year (net)					—
Total changes during the year	—	242	7,485	-9,363	-1,635
Ending balance	5,000	27,574	26,959	-9,366	50,167

(Unit: ¥millions)

	Accumulated other comprehensive income				Equity warrants	Non-controlling interests	Total net assets
	Other securities valuation differences	Deferred hedging profit/loss	Foreign currency translation adjustments	Total accumulated other comprehensive income			
Beginning balance	968	6	1,005	1,981	78	48,405	102,269
Changes during the year							
Dividends							-2,799
Profit attributable to owners of the parent							10,284
Acquisition of treasury stock							-9,363
Retirement of treasury stock							—
Disposition of treasury stock							—
Increases in earned surplus due to increases in consolidated subsidiaries							—
Changes in the parent's interests due to transactions with non-controlling interests							242
Changes in items other than shareholders' equity during the year (net)	216	-16	-1,443	-1,243	-11	735	-519
Total changes during the year	216	-16	-1,443	-1,243	-11	735	-2,154
Ending balance	1,184	-9	-437	738	67	49,140	100,114

(4) Consolidated Statement of Cash Flows

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2019-12.31.2019)	Current Fiscal Year (01.01.2020-12.31.2020)
Cash Flow from Operating Activities		
Net profit before adjustment for tax etc.	22,621	29,926
Depreciation expenses	6,888	8,053
Impairment loss	2,476	3,787
Amortization of goodwill	364	605
Gain or loss on change in equity (- represents gain)	-481	-31
Interest and dividends received	-231	-377
Interest paid	190	390
Equity method investment gain or loss (- represents gain)	877	760
Gain or loss on valuation of investment securities (- represents gain)	619	1,143
Gain or loss on sale of investment securities (- represents gain)	-57	-7,796
Gain or loss on sale of stock in subsidiaries and affiliates (- represents gain)	—	462
Gain on reversal of loss on cryptoassets mining business restructuring	-871	—
Changes in provision for doubtful debts (- represents decrease)	439	-3,308
Changes in financial instruments transaction liability reserve (- represents decrease)	-355	-38
Changes in provision for bonuses (- represents decrease)	-628	1,965
Changes in trade receivables (- represents increase)	590	-1,448
Changes in trade payables (- represents decrease)	-14,433	-4,944
Changes in other payables (- represents decrease)	301	4,427
Changes in deposits received (- represents decrease)	20,494	31,092
Changes in securities segment deposits (- represents increase)	-38,340	-64,126
Changes in securities segment guarantee deposits (- represents increase)	3,882	-9,855
Changes in securities segment margin variation paid and received	268	-12,456
Changes in securities segment deposits and guarantees received (- represents decrease)	38,167	65,059
Changes in securities segment margin transaction assets and liabilities	-6,193	-9,487
Changes in securities segment debt secured by securities (- represents decrease)	2,135	6,720
Changes in securities segment loan secured by securities (- represents increase)	-1,973	-172
Changes in proprietary cryptoassets (- represents increase)	-2,154	-5,679
Other	-11,517	9,292
Sub total	23,078	43,967
Interest and dividends received	204	278
Interest paid	-781	-1,140
Refund of deposit money	3,000	—
Payment of deposit money	-3,090	—
Corporate tax etc. paid	-14,908	-4,827
Cash Flow from Operating Activities	7,502	38,277

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2019-12.31.2019)	Current Fiscal Year (01.01.2020-12.31.2020)
Cash Flow from Investing Activities		
Placement of fixed term deposit	-247	-1,410
Withdrawal of fixed term deposit	144	108
Acquisition of tangible fixed assets	-7,122	-3,506
Acquisition of intangible fixed assets	-4,052	-3,980
Acquisition of investment securities	-3,003	-10,319
Proceeds from sale of investment securities	130	1,034
Origination of loans receivable	-88	-1,646
Collection of loans receivable	4	1,619
Payment of deposit money	-5,918	-3,509
Collection of deposit money	87	5,643
Acquisition of subsidiary stock resulting in change in scope of consolidation	-1,771	—
Sale of subsidiary stock resulting in change in scope of consolidation	—	-968
Other	220	940
Cash Flow from Investing Activities	-21,617	-15,995
Cash Flow from Financing Activities		
Net changes in short term debts (- represents decrease)	42,403	55,358
Proceeds from new long term debt	7,363	8,709
Repayment of long term debt	-6,035	-5,747
Acquisition of treasury stock	-3,110	-9,363
Gain on sale and leasebacks	—	778
Payment of installment and lease obligations	-2,181	-2,356
Payment from investment partners	1,700	—
Payment to investment partners	-1,126	-2,062
Acquisition of subsidiaries' treasury stock	-2,040	-2,929
Payment from non-controlling interests	62	1,388
Payment of dividends	-3,545	-2,803
Payment of dividends to non-controlling interests	-3,242	-4,758
Acquisition of subsidiary stock without change in scope of consolidation	—	-430
Proceeds from sale of subsidiary stock without change in scope of consolidation	—	1,735
Other	76	—
Cash Flow from Financing Activities	30,323	37,518
Currency Translation Adjustment on Cash and Equivalents	-145	-838
Changes in Cash and Equivalents (- represents decrease)	16,063	58,961
Balance of Cash and Equivalents at Beginning of Year	143,650	159,715
Increase in Cash and Equivalents due to New Consolidation	1	—
Balance of Cash and Equivalents at End of Year	159,715	218,676

(5) Notes to consolidated financial statements
(Notes regarding going concern assumption)
Not applicable

(Significant items concerning the preparation of the consolidated financial statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries and names of significant consolidated subsidiaries

Number of consolidated subsidiaries: 99 (including 4 partnerships)

Names of significant consolidated subsidiaries

GMO AD Partners, Inc.

GMO GlobalSign Holdings K.K.

GMO Payment Gateway, Inc.

GMO Pepabo, Inc.

GMO Financial Holdings, Inc.

GMO TECH, Inc.

GMO Research, Inc.

GMO Media, Inc.

GMO Financial Gate, Inc.

GMO Mobility Cloud K.K., GMO-Z.com Trust Company, Inc. and 6 other companies were added to the consolidation during the current fiscal year due to establishment, etc. The following companies were excluded from the consolidation during the current fiscal year for the following reasons: 16 Macro Kiosk Berhad Group companies as all of their shares were sold; and Blog Business Fund Investment Limited Partnership, GMO-Zcom Iceland chf. and four other companies as they completed their respective liquidation proceedings.

GMO Cloud, K.K. changed its name to GMO GlobalSign Holdings K.K. effective September 1, 2020.

(2) Names of significant non-consolidated subsidiaries

Patent Incubation Capital, Inc.

Reasons for exclusion from the consolidation

All 20 non-consolidated subsidiaries are small-scale companies, and none of their total assets, sales, net profit (corresponding to the equity share) and earned surplus (corresponding to the equity share) have a significant impact on the consolidated financial statements.

2. Application of the equity method

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

Names of significant equity method affiliates:

GMO Aozora Net Bank, Ltd.

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

Patent Incubation Capital, Inc.

Net profit or loss (corresponding to the equity share) and earned surplus (corresponding to the equity share), etc. of 20 non-consolidated subsidiaries and three affiliates (HUMEIA REGISTRY Co. Ltd, and two other companies) have insignificant impact on overall performance, individually and collectively, and therefore they are excluded from the scope of application of the equity method.

3. Fiscal years, etc. of consolidated subsidiaries

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

Fiscal year-end: September 30

GMO Payment Gateway, Inc.

GMO Epsilon, Inc. and 11 other companies

Fiscal year-end: March 31

GMO Globalsign Certificate Services Private Limited and 4 other companies

Fiscal year-end: May 31

GMO Venture Partners 4 Investment Limited Partnership and 2 other companies

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

4. Accounting policies

(1) Valuation criteria and method for major assets

(i) Marketable securities

Available-for-sale securities

Market value method (cost of sales is determined by moving average method)

Bonds held to maturity

Amortized cost (straight-line) method

Other marketable securities (including operational investment securities)

Securities with a market value:

Stated at market value at year-end. All valuation differences are included directly in net assets and cost of sales is determined by the moving average method.

Securities with no market value:

Stated at cost determined by the moving average method

(ii) Derivatives transactions

Market value method

(2) Depreciation of major depreciable assets

(i) Tangible fixed assets (excluding lease assets)

Declining-balance method. Leasehold improvements acquired after April 1, 2016 are depreciated using the straight-line method.

Useful life:

Buildings and structures: 3-50 years

Tools and equipment: 2-20 years

(ii) Intangible fixed assets (excluding lease assets)

Straight-line method. Computer software for internal use is amortized using the straight-line method over an estimated useful life (generally five years).

(iii) Lease Assets

Finance lease transactions that do not transfer ownership

Depreciated using the straight-line method over the lease term with the residual value of zero.

(3) Calculation criteria of significant reserves

(i) Allowance for doubtful debt

In order to provide for credit loss, allowance for estimated uncollectible amount is recorded based on the credit loss ratio for performing accounts and based on individual assessment of collectibility for non-performing accounts.

(ii) Allowance for bonuses

In order to provide for the bonus payment to employees, the estimated bonus amount attributable to the current year is recorded.

(iii) Allowance for Director bonuses

In order to provide for the bonus payment to directors, the estimated bonus amount attributable to the current year is recorded.

(iv) Financial instruments transaction liability reserve

This reserve is provided in some consolidated subsidiaries in accordance with Article 46-5 of the Financial Instruments and Exchange Act and Article 175 of the "Cabinet Office Ordinance on Financial Instruments Business, etc." in order to provide for potential losses arising from securities transaction related incidents.

(4) Hedge accounting

(i) Hedge accounting

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

(ii) Hedging instruments and hedged items

Hedging instrument: Forward exchange contracts

Hedged items: debt and forecast transactions denominated in foreign currency

(iii) Hedging policy

The Company enters into forward exchange contracts to hedge exchange rate fluctuation risk. Hedged items are identified on an individual contract basis.

(iv) Method of hedge effectiveness evaluation

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

(5) Method and period of goodwill amortization

Goodwill is amortized over a reasonable period within 20 years using the straight-line method.

(6) Scope of cash and equivalents in the consolidated statement of cash flows

Cash and equivalents stated in the consolidated statement of cash flows consist of cash on hand, demand deposits and short-term investments that are readily convertible to cash with low risk of price fluctuation and with original maturities of 3 months or less.

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

(i) Accounting for consumption taxes

Transactions subject to national and local consumption taxes are stated net of consumption taxes.

Nondeductible national and local consumption taxes related to assets are reported as long-term prepaid expense (included in Other in Investments and other assets) and amortized over 5 years.

(ii) Accounting for foreign exchange margin transactions

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

Valuation gain or loss is the difference between the quoted price and market value for the open position in foreign exchange margin transactions calculated on each transaction statement. They are aggregated and the net amount is reported as "Securities segment variation margin paid" or "Securities segment variation margin received" on the consolidated balance sheet.

In addition, customer assets (deposits) in Japan are managed separately in accordance with Article 143, Paragraph 1, Item 1 of the "Cabinet Office Ordinance on Financial Instruments Business, etc." pursuant to Article 43-3, Paragraph 1 of the Financial Instruments and Exchange Act, and customer assets in overseas consolidated subsidiaries are managed separately from proprietary assets in accordance with local laws.

They are reported as "Securities segment deposits" on the consolidated balance sheet.

(iii) Application of consolidated tax payment system

The Company and its certain consolidated subsidiaries have applied the consolidated tax payment system.

(Changes in presentation method)

(Consolidated Balance Sheet and Consolidated Statement of Cash Flows)

Following the adoption of “Examples of major accounting treatments in the cryptoassets exchange business” issued by Japan Virtual and Crypto assets Exchange Association on June 12, 2020, the Company changed presentation regarding the Company’s cryptoassets business during the current fiscal year with an aim to more appropriately present the substance of transactions and also improve comparability with other cryptoassets exchange operators. In order to reflect this change, the consolidated balance sheet as of December 31, 2019 and the consolidated statement of cash flows for the year then ended were reclassified. Guarantees received in the Cryptoassets business were presented as “Securities segment deposits received” in “Current Liabilities” in the consolidated balance sheet as of December 31, 2019. Following the enforcement of the Revised Payment Services Act which came into force on May 1, 2020 and the registration of our consolidated subsidiary as Class 1 Financial Instruments Business Operator, the Company started the segregated management, and accordingly those deposits are included in “Securities segment guarantees received” in “Current Liabilities” from the current fiscal year.

Details of the changes in presentation and the reclassification of the consolidated balance sheet as of December 31, 2019 and the consolidated statement of cash flows for the year then ended are as follows:

Consolidated balance sheet
As of December 31, 2019

(Unit: ¥millions)

Before change			After change		
Current assets	Cryptocurrency received	17,404	Current assets	Customers' cryptoassets (Note1)	17,404
Current assets	Securities segment short term guarantee deposits	55,052	Current assets	Securities segment short term guarantee deposits	51,906
			Current assets	Other (Note 2)	3,145
Current assets	Other	97,719	Current assets	Proprietary cryptoassets (Note 2)	3,781
			Current assets	Other	93,938
Current liabilities	Cryptocurrency received	17,404	Current liabilities	Cryptoassets received (Note 1)	17,404

Notes 1. Change of account name

2. Money temporarily deposited with other cryptoassets business operators in relation to the trading of cryptoassets of ¥3,145 million which was included in “Security segment short term guarantee deposits” in “Current assets” as of December 31, 2019 was reclassified to “Other” in “Current assets.” Also, cryptoassets purchased and owned by the Company of ¥3,781 million was reclassified to “Proprietary cryptoassets” in “Current assets.”

Consolidated statement of cash flows
For the year ended December 31, 2019

(Unit: ¥millions)

Before change			After change		
Cash flow from operating activities	Changes in securities segment guarantee deposits (- represents increase)	2,526	Cash flow from operating activities	Changes in securities segment guarantee deposits (- represents increase)	3,882
			Cash flow from operating activities	Other	-1,355
Cash flow from operating activities	Other	-12,315	Cash flow from operating activities	Changes in proprietary cryptoassets (- represents increase)	-2,154
			Cash flow from operating activities	Other	-10,161

Notes An increase in money temporarily deposited with other cryptoassets business operators in relation to the trading of cryptoassets of ¥-1,355 million which was included in “Changes in securities segment guarantee deposits (- represents increase)” in “Cash flow from operating activities” for the year ended December 31, 2019 was reclassified to “Other” in “Cash flow from operating activities.” Also, an increase in cryptoassets purchased and owned by the Company of ¥-2,154 million which was included in “Other” in “Cash flow from operating activities” for the year ended December 31, 2019 was reclassified to “Changes in proprietary cryptoassets (- represents increase)” in “Cash flow from operating activities.”

(Consolidated Statement of Income and Consolidated Statement of Cash Flows)

In accordance with the change of the term “ cryptocurrency ” to “ cryptoasset ” in the Revised Payment Services Act which came into force on May 1, 2020, the Company changed presentation as follows.

Consolidated statement of income

“Gain on reversal of loss on cryptocurrency mining business restructuring” presented in “Extraordinary Profit” for the year ended December 31, 2019 is presented as “Gain on reversal of loss on cryptoassets mining business restructuring” in “Extraordinary Profit” effective January 1, 2020.

As a result of this change, “Gain on reversal of loss on cryptocurrency mining business restructuring” of ¥871 million in “Extraordinary Profit” is now presented as “Gain on reversal of loss on cryptoassets mining business restructuring” of ¥871 million in “Extraordinary Profit” in the consolidated statement of income for the year ended December 31, 2019.

Consolidated statement of cash flows

“Gain on reversal of loss on cryptocurrency mining business restructuring” presented in “Cash flow from operating activities” for the year ended December 31, 2019 is presented as “Gain on reversal of loss on cryptoassets mining business restructuring” in “Cash flow from operating activities” effective January 1, 2020.

As a result of this change, “Gain on reversal of loss on cryptocurrency mining business restructuring” of ¥-871 million in “Cash flow from operating activities” is now presented as “Gain on reversal of loss on cryptoassets mining business restructuring” of ¥-871 million in “Cash flow from operating activities” in the consolidated statement of cash flows for the year ended December 31, 2019.

(Consolidated Statement of Income)

“Expired points gain” was presented separately in “Non-Operating Revenue” for the year ended December 31, 2019, but it is included in “Other” for the year ended December 31, 2020 as it became immaterial. The consolidated financial statements for the year ended December 31, 2019 were reclassified to reflect this change in presentation.

As a result, ¥9 million of “Expired points gain” presented in “Non-Operating Revenue” in the consolidated statement of income for the year ended December 31, 2019 was reclassified to “Other.”

“Commission paid” was presented separately in “Non-Operating Expenses” for the year ended December 31, 2019, but it is included in “Other” for the year ended December 31, 2020 as it became immaterial. The consolidated financial statements for the year ended December 31, 2019 were reclassified to reflect this change in presentation.

As a result, ¥82 million of “Commission paid” presented in “Non-Operating Expenses” in the consolidated statement of income for the year ended December 31, 2019 was reclassified to “Other.”

“Gain on sale of investment securities” included in “Other” in “Extraordinary Profit” for the year ended December 31, 2019 is presented separately for the year ended December 31, 2020 as it became material. The consolidated financial statements for the year ended December 31, 2019 were reclassified to reflect this change in presentation.

As a result, ¥57 million included in “Other” in “Extraordinary Profit” for the year ended December 31, 2019 was reclassified to “Gain on sale of investment securities.”

(Consolidated Statement of Cash Flows)

“Collection of loans receivable” included in “Other” in “Cash flow from investing activities” for the year ended December 31, 2019 is presented separately for the year ended December 31, 2020 as it became material. The consolidated financial statements for the year ended December 31, 2019 were reclassified to reflect this change in presentation.

As a result, ¥4 million included in “Other” in “Cash flow from investing activities” in the consolidated statement of cash flows for the year ended December 31, 2019 was reclassified to “Collection of loans receivable.”

“Collection of deposit money” included in “Other” in “Cash flow from investing activities” for the year ended December 31, 2019 is presented separately for the year ended December 31, 2020 as it became material. The consolidated financial statements for the year ended December 31, 2019 were reclassified to reflect this change in presentation.

As a result, ¥87 million included in “Other” in “Cash flow from investing activities” in the consolidated statement of cash flows for the year ended December 31, 2019 was reclassified to “Collection of deposit money.”

(Additional information)

(Application of tax effect accounting on transition from the consolidated taxation system to the group tax sharing system)

With regard to the transition to the group tax sharing system introduced by the “Act Partially Amending the Income Tax Act, etc.” (Act No. 8 of 2020) and items under the non-consolidated taxation system reviewed in line with the transition to the group tax sharing system, pursuant to Paragraph 3 of the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ PITF No. 39, March 31, 2020), the Company and its certain domestic consolidated subsidiaries applied the provisions of the Tax Act before the revisions in determining the amount of deferred tax assets and liabilities instead of applying Paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018).

(Segment information, etc.)

Segment information

1. Overview of Reportable Segments

(1) Method to determine reportable segments

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

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

The Internet Infrastructure segment provides services that comprise the business base for customers with online businesses. Services include domain, hosting & cloud, ecommerce solutions, security, payment and provider. The Online Advertising & Media segment provides marketing solutions for customers with online businesses, and includes online advertising, Internet media and Internet research sub-segments. The Internet Finance segment operates online securities transaction service, foreign exchange margin transaction service and cryptoassets trading service. The Cryptoassets segment engages in cryptoassets exchange and mining business. The Incubation segment invests primarily in unlisted Internet related businesses.

(2) Change in reportable segments

Effective January 1, 2020, "Cryptocurrency" segment was renamed to "Cryptoassets" segment. The change in the segment name had no impact on the segment information.

The disclosed segment information for the year ended December 31, 2019 was prepared under the new segment names.

2. Calculation of Net Sales, Profit or Loss, Assets, Liabilities and Other Items by Reportable Segment

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

3. Net Sales, Profit or Loss, Assets, Liabilities and Other Items by Reportable Segment

Previous Fiscal Year (01.01.2019 – 12.31.2019)

(Unit: ¥millions)

	Reportable segment						Other (*1)	Adjustment (*2)	Total (*3)
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Cryptoassets	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	113,342	42,599	28,556	6,079	3,910	194,489	1,682	—	196,171
Inter-segment sales and transfers	733	4,212	13	-7	—	4,951	251	-5,202	—
Total	114,076	46,812	28,570	6,072	3,910	199,440	1,933	-5,202	196,171
Segment profit/loss (-represents loss)	14,060	549	8,513	958	2,530	26,613	-1,418	84	25,279
Other items									
Depreciation	5,010	446	896	139	2	6,495	392	—	6,888

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

2. Segment profit/loss adjustment (¥84 million) is an elimination of inter-segment transactions.

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

Current Fiscal Year (01.01.2020 – 12.31.2020)

(Unit: ¥millions)

	Reportable segment						Other (*1)	Adjustment (*2)	Total (*3)
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Cryptoassets	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	130,438	40,629	30,860	6,723	1,001	209,651	907	—	210,559
Inter-segment sales and transfers	835	6,233	-7	7	—	7,068	180	-7,249	—
Total	131,273	46,862	30,852	6,730	1,001	216,720	1,087	-7,249	210,559
Segment profit/loss (-represents loss)	16,287	422	10,617	769	102	28,198	-360	55	27,893
Other items									
Depreciation	6,173	350	875	529	3	7,931	122	—	8,053

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

2. Segment profit/loss adjustment (¥55 million) is an elimination of inter-segment transactions.

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

(Related Information)

Previous Fiscal Year (01.01.2019 – 12.31.2019)

1. Information by product and service

This section is omitted as the relevant information is disclosed in the Segment information section.

2. Information by geographic region

(1) Net Sales

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

(2) Tangible fixed assets

(Unit: ¥millions)

Japan	Other	Total
13,939	2,179	16,118

3. Information by major customer

This section is omitted as no external customer accounts for more than 10% of net sales stated on the consolidated statement of income.

Current Fiscal Year (01.01.2020 – 12.31.2020)

1. Information by product and service

This section is omitted as the relevant information is disclosed in the Segment information section.

2. Information by geographic region

(1) Net Sales

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

(2) Tangible fixed assets

(Unit: ¥millions)

Japan	Other	Total
14,106	381	14,488

(Change in presentation)

Tangible fixed assets in "U.S." of ¥1,894 million separately presented for the year ended December 31, 2019 is now included in "Other" as it became immaterial. The balance was reclassified and is included in "Other" of ¥2,179 million for the year ended December 31, 2019 to reflect this change in presentation.

3. Information by major customer

This section is omitted as no external customer accounts for more than 10% of net sales stated on the consolidated statement of income.

(Information relating to impairment loss on fixed assets by reportable segment)

Previous Fiscal Year (01.01.2019 – 12.31.2019)

(Unit: ¥millions)

	Reportable segment						Other (Note)	Corporate/ elimination	Total
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Cryptoassets	Incubation	Total			
Impairment loss	1,447	31	—	—	—	1,479	997	—	2,476

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

Current Fiscal Year (01.01.2020 – 12.31.2020)

(Unit: ¥millions)

	Reportable segment						Other (Note)	Corporate/ elimination	Total
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Cryptoassets	Incubation	Total			
Impairment loss	1,850	88	97	1,482	—	3,519	268	—	3,787

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

(Information regarding goodwill amortization and unamortized balance by reportable segment)

Previous Fiscal Year (01.01.2019 – 12.31.2019)

(Unit: ¥millions)

	Reportable segment						Other (Note)	Corporate/ elimination	Total
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Cryptoassets	Incubation	Total			
Amortization during the year	224	78	—	—	—	302	62	—	364
Balance at end of year	2,611	44	—	—	—	2,655	122	—	2,778

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

Current Fiscal Year (01.01.2020 – 12.31.2020)

(Unit: ¥millions)

	Reportable segment						Other (Note)	Corporate/ elimination	Total
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Cryptoassets	Incubation	Total			
Amortization during the year	506	37	—	—	—	543	62	—	605
Balance at end of year	651	3	—	—	—	654	2	—	657

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

(Information regarding profit arising from negative goodwill by reportable segment)

Not applicable

(Per share information)

(Unit: yen)

Item	Previous Consolidated Fiscal Year (01.01.2019– 12.31.2019)	Current Consolidated Fiscal Year (01.01.2020 – 12.31.2020)
Net assets per share	474.95	465.94
Net profit per share	73.16	93.00
Net profit per share (diluted)	72.08	91.75

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

Item	Previous Consolidated Fiscal Year (01.01.2019– 12.31.2019)	Current Consolidated Fiscal Year (01.01.2020 – 12.31.2020)
Net profit per share		
Profit attributable to owners of the parent (¥millions)	8,337	10,284
Amount not attributable to common shareholders (¥millions)	—	—
Net profit attributable to owners of the parent related to common stock (¥millions)	8,337	10,284
Average number of common shares outstanding during the period (shares)	114,274,060	113,242,987
Average number of treasury stock during the period (shares)	-311,019	-2,655,418
Average number of shares during the period (shares)	113,963,041	110,587,569
Net profit per share (diluted)		
Net profit adjustment attributable to owners of the parent (¥millions)	-122	-137
(including adjustment for dilutive shares in consolidated subsidiaries) (¥millions)	(-122)	(-137)
Increase in no. of common shares (shares)	—	—
Dilutive shares not included in the calculation of net profit per share (diluted) because of their anti-dilutive effect.	1. Consolidated Subsidiaries i. GMO AD Partners, Inc. Stock Options 6th Round Common stock: 307,200 shares ii. GMO Financial Holdings, Inc. Equity Warrants 2nd Round Common stock: 2,335,000 shares iii. GMO TECH, Inc. Equity Warrants 1st Round Common stock: 7,545 shares iv. GMO Epsilon, Inc. 2010 Stock Options Common stock: 77 shares v. GMO Media, Inc. Equity Warrants 1st Round Common stock: 97,900 shares	1. Consolidated Subsidiaries i. GMO AD Partners, Inc. Stock Options 6th Round Common stock: 300,100 shares ii. GMO Financial Holdings, Inc. Equity Warrants 2nd Round Common stock: 2,315,000 shares iii. GMO TECH, Inc. Equity Warrants 1st Round Common stock: 7,530 shares iv. GMO Epsilon, Inc. 2010 Stock Options Common stock: 72 shares v. GMO Media, Inc. Equity Warrants 1st Round Common stock: 92,200 shares

(Significant Subsequent Events)

(Acquisition of Treasury Stock)

At the Board of Directors meeting held on February 12, 2021, it was resolved to acquire treasury stock in accordance with the Company's Articles of Incorporation pursuant to the provisions of Article 459, Paragraph 1 of the Companies Act of Japan. Details are as follows:

- (1) Reason for acquisition: To improve shareholder returns and capital efficiency
- (2) Class of shares to be acquired: Common stock of GMO Internet, Inc.
- (3) Total number of shares to be acquired: 5,000,000 shares (maximum) (4.58% of outstanding shares excluding treasury stock)
- (4) Total cost of share acquisition: JPY 5,636 million (maximum)
- (5) Acquisition period: From February 15, 2021 to February 14, 2022
- (6) Acquisition method: Market purchase at the Tokyo Stock Exchange

(Retirement of Treasury Stock)

At the Board of Directors meeting held on February 12, 2021, it was resolved to retire treasury stock in accordance with the Company's Articles of Incorporation pursuant to the provisions of Article 178 of the Companies Act of Japan. Details are as follows:

- (1) Reason for retirement: To improve shareholder returns and capital efficiency
- (2) Class of shares to be retired: Common stock of GMO Internet, Inc.
- (3) Total number of shares to be retired: 1,349,941 shares (1.19% of outstanding shares before the retirement)
- (4) Scheduled date of retirement: February 26, 2021
- (5) Total number of outstanding shares after the retirement: 111,893,046 shares