

Fiscal Year 2022 Third Quarter Consolidated Financial Results (Japanese GAAP)

November 14, 2022

Name of Listed Company: GMO Internet Group, Inc.

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

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Date of Quarterly Report Release: November 14, 2022 Start Date of Dividend Payout: –

Supplementary documents available pertaining to quarterly financial results: Yes

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

(all amounts rounded down to the nearest million yen)

1. Third Quarter Financial Results in the Year Ending December 2022 (01.01.2022- 09.30.2022)

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

	Net Sales		Operating Profit		Ordinary Profit		Profit Attributable to Owners of the Parent	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
Nine months ended								
September 30, 2022	183,134	3.5	38,010	24.1	42,438	31.7	13,854	4.2
September 30, 2021	176,951	12.5	30,633	36.0	32,222	47.1	13,300	97.3

(Note) Comprehensive Income: September 30, 2022: 44,790 million (74.4%), September 30, 2021: 25,681 million (84.8%)

	Net Profit per Share	Net Profit per Share (Diluted)
Nine months ended	¥	¥
September 30, 2022	129.03	127.89
September 30, 2021	121.31	120.49

(2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio
As of	¥ millions	¥ millions	%
September 30, 2022	1,545,403	163,685	4.8
December 31, 2021	1,418,936	140,402	5.2

(Reference) Shareholders' Equity: September 30, 2022: ¥74,209 million; December 31, 2021: ¥73,548 million

2. Dividends

	Annual Dividends				
	End of Q1	End of Q2	End of Q3	End of Term	Total
Year Ended 12/2021	¥ 17.10	¥ 12.20	¥ 10.80	¥ 12.60	¥ 52.70
Year Ending 12/2022	19.60	28.00	0.00		
Year Ending 12/2022 (forecast)				—	—

3. Consolidated Results Forecast for the Year Ending December 31, 2022 (01.01.2022 – 12.31.2022)

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 Co., Ltd., our subsidiary, discloses sales indicators, such as foreign exchange transaction volume, stock brokerage trading value, CFD trading value, cryptoasset trading value and the number of customer accounts, and operating revenue on a monthly basis.

*Notes

(1) Changes to significant subsidiaries in the current term: No

(2) Special accounting treatments used in preparation of the quarterly consolidated financial statements:
None

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

1. Changes resulting from revisions to accounting standard, etc.: Yes

2. Changes other than those specified above: None

3. Changes in accounting estimates: None

4. Restatements: None

(4) Number of Outstanding Shares (Common Shares)

(Unit: shares)

1. Outstanding shares at period end (inc. treasury)

Q3 FYE 12/2022	110,704,401	FYE 12/2021	111,893,046
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2. Treasury shares at period end

Q3 FYE 12/2022	3,979,562	FYE 12/2021	2,283,361
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3. Average number of shares during the period

Q3 FYE 12/2022	107,368,801	Q3 FYE 12/2021	109,636,555
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*Quarterly financial results are not subject to quarterly review by independent auditors.

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

Although the Company aims to pay dividends quarterly with a payout ratio of 33% to net income attributable to 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 November 14, 2022, 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.

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1. Qualitative Information Related to Financial Results

(1) Operating results

◆ Overview of the Financial Results for the Nine Months Ended September 30, 2022

(Unit: ¥millions)

	Previous Q3	Current Q3	Change	% Change
Net Sales	176,951	183,134	6,182	3.5%
Operating Profit	30,633	38,010	7,377	24.1%
Ordinary Profit	32,222	42,438	10,216	31.7%
Profit Attributable to Owners of the Parent	13,300	13,854	553	4.2%

Under the corporate slogan “Internet for Everyone,” GMO Internet Group has consistently focused resources on the service to provide internet and service infrastructure since its foundation in 1995. With the increased usage of the Internet, the volume of information available on the Internet and the volume of transactions conducted over the Internet have increased exponentially, which has opened new business opportunities for the Group one after another and the Internet infrastructure business with the recurring business model has been leading revenue growth; and as a result, the Group reported increases both in net sales and profit for the year ended December 31, 2021, marking its 13th straight yearly increase.

While there are signs of economic recovery following the implementation of the countermeasures to prevent the spread of COVID-19, the progress of Digital Transformation (DX) and the spread of online consumption have been becoming an irreversible trend and there is an increasing need for services provided by the Group.

Amidst such a business environment, (1) the Internet Infrastructure segment, a collective of No. 1 products, showed steady growth mainly in Payment and Security. (2) In the Online Advertising & Media segment, transactions with customers in certain industries showed strong growth as economic activities are gradually resuming, and our own media also showed strong growth. (3) In the Internet Finance segment, OTC FX faced a challenging business environment in terms of profitability due to continued one-sided depreciation of the yen against the U.S. dollar although transaction volume increased due to consolidation of Gaika ex byGMO. On the other hand, CFD showed strong growth thanks to increased volatility in the commodity market. (4) The Cryptoassets segment showed sluggish growth compared to FY2021 Q3 which enjoyed active trading, due to a significant decrease in transaction value caused by lower volatility. (5) The Incubation segment sold some investment securities.

As a result, for the nine months ended September 30, 2022, the Company recorded net sales of ¥183,134 million (up 3.5% year-on-year), operating profit of ¥38,010 million (up 24.1% year-on-year), ordinary profit of ¥42,438 million (up 31.7% year-on-year) and net profit attributable to owners of the parent of ¥13,854 million (up 4.2% year-on-year). The impact of applying the accounting standard for revenue recognition was a decreases in net sales of ¥23,611 million and an increase in operating profit of ¥144 million, respectively, and operating results under the previous accounting standard would have also been increases in net sales and profit from a year ago.

Net Sales and Operating Profit by Segment for the Nine Months Ended September 30, 2022

(Unit: ¥millions)

	Previous Q3	Current Q3	Change	% Change
Internet Infrastructure				
Net Sales	102,909	109,499	6,589	6.4%
Operating Profit	13,702	16,622	2,920	21.3%
Online Advertising & Media				
Net Sales	38,471	25,291	-13,180	-34.3%
Operating Profit	1,323	2,212	888	67.2%
Internet Finance				
Net Sales	22,531	31,162	8,630	38.3%
Operating Profit	7,859	9,309	1,450	18.5%
Cryptoassets				
Net Sales	16,259	4,133	-12,125	-74.6%
Operating Profit	7,852	-1,059	-8,911	—
Incubation				
Net Sales	962	13,392	12,430	—
Operating Profit	473	10,318	9,844	—
Other				
Net Sales	1,195	2,604	1,408	117.8%
Operating Profit	-382	-179	203	—
Adjustment				
Net Sales	-5,378	-2,949	2,429	—
Operating Profit	-195	786	981	—
Total				
Net Sales	176,951	183,134	6,182	3.5%
Operating Profit	30,633	38,010	7,377	24.1%

◆ Overview of Financial Results for the Three Months ended September 30, 2022

(Unit: ¥millions)

	Previous Q3	Current Q3	Change	% Change
Net Sales	56,471	57,578	1,107	2.0%
Operating Profit	8,012	7,069	-943	-11.8%
Ordinary Profit	8,601	8,955	354	4.1%
Profit attributable to Owners of the Parent or net loss attributable to Owners of the Parent (- represents loss)	3,597	-1,651	-5,249	—

During the three months ended September 30, 2022, the Cryptoassets segment showed sluggish growth compared to FY2021 Q3 which enjoyed active cryptoassets trading due to a decline in volatility resulting in a significant decrease in trading value in the cryptoassets exchange business. Meanwhile, the Internet Infrastructure segment showed steady growth mainly in Payment and Security services while making strategic investment in *e-contract service GMO Sign*. The Online Advertising & Media segment also continued to be on a recovery trend due to steady demand for advertising as the advertising market showed further recovery. The Internet Finance segment reported increases in both net sales and operating profit mainly due to consolidation of Gaika ex byGMO despite an issue on the profitability of OTC FX resulting from a rapid depreciation of the yen against the dollar.

Net Sales and Operating Profit by Segment for the Three Months ended September 30, 2022

(Unit: ¥millions)

	Previous Q3	Current Q3	Change	% Change
Internet Infrastructure				
Net Sales	34,335	38,074	3,738	10.9%
Operating Profit	4,021	4,753	731	18.2%
Online Advertising & Media				
Net Sales	12,058	8,886	-3,171	-26.3%
Operating Profit	251	737	485	193.0%
Internet Finance				
Net Sales	7,386	10,002	2,615	35.4%
Operating Profit	2,628	2,683	55	2.1%
Cryptoassets				
Net Sales	3,677	775	-2,902	-78.9%
Operating Profit	1,482	-821	-2,303	—
Incubation				
Net Sales	64	0	-64	-100.0%
Operating Profit	-33	-96	-63	—
Other				
Net Sales	437	903	465	106.3%
Operating Profit	-197	-85	111	—
Adjustment				
Net Sales	-1,489	-1,063	426	—
Operating Profit	-141	-101	39	—
Total				
Net Sales	56,471	57,578	1,107	2.0%
Operating Profit	8,012	7,069	-943	-11.8%

Segments results for the three months ended September 30, 2022 are as follows.

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 consumer Internet provider services. The following is a breakdown of results in each of the businesses comprising this segment.

Effective January 1, 2022, in light of the future business development of our service using authentication technologies to provide secure and safe Internet, including electronic authentication, cybersecurity and trademark management, we changed the name of a sub-segment and restructured segmentation. Namely, “Digital certificate and eSignature” was changed to “Security,” and the brand security business previously included in “Domain” was transferred to “Security.” Accordingly, year-on-year comparison is performed using the figures under the new segmentation.

i. Domain

Positioned as a gateway to the Group’s infrastructure segment, the domain business has steadily grown its customer base with a low-pricing strategy mainly through the Company and GMO Pepabo. While the number of domain registration and renewals during the three months ended September 30, 2022 decreased to 1.30 million (down 12.6% year-on-year), the total number of domains under management as of September 30, 2022 increased to 7.04 million (up 2.2% year-on-year) and continued strong sales in .shop in Japan and overseas also contributed to earnings. As a result, net sales were ¥2,379 million (up 11.6% year-on-year).

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 mainly through the Company, GMO GlobalSign Holdings and GMO Pepabo. Thanks to the continued steady growth in sales of retail server, the number of web hosting contracts as of September 30, 2022 was 1,097 thousand (up 4.3% year-on-year) and net sales were ¥4,693 million (up 14.3% year-on-year).

iii. Ecommerce solutions

Ecommerce solutions are offered mainly by GMO Pepabo and GMO MAKESHOP and comprise EC platforms that provide platforms for online stores, *minne*, a C2C handmade market, *SUZURI*, an original merchandise production/sales service, and O2O support service. In EC platform, the number of contracts of *Color me shop* for a free plan that allows to open an online store without a monthly fee increased, so while the number of paid stores as of September 30, 2022 decreased 7.5% year-on-year to 58 thousand, total transaction volume showed solid growth at ¥117.0 billion (up 2.6% year-on-year) mainly in *MakeShop* which offers high-price plans. For *minne*, the total transaction volume decreased by 3.5% year-on-year to ¥3.3 billion as a reaction to stay-at-home consumption as economic activities resumed. The effect of the change in accounting standard was a decrease in net sales of ¥624 million, and as a result, net sales were ¥3,846 million (down 8.4% year-on-year).

iv. Security

This business offers security services to provide secure and safe Internet for everyone, including digital certification security such as SSL server certificates and *e-contract service GMO Sign* provided mainly through GMO GlobalSign Holdings, cybersecurity provided by GMO Cybersecurity by Ierae, and brand security provided by GMO BRAND SECURITY Inc. Results of GMO Cybersecurity by Ierae have been included in the consolidated results from the three months ended June 30, 2022. SSL server certificate service returned to a favorable growth trend as the effect of the shortened certificate lifespan from two years to one year to improve security fully subsided. As a result, this sub-segment reported net sales of ¥3,285 million (up 66.1% year-on-year).

v. Payment

Payment services are mainly operated by GMO Payment Gateway and offer comprehensive payment-related service and finance-related services. In the payment-related service, online/recurring payments in the Ecommerce market showed strong growth, and sales of a next-generation payment platform "*stera*" terminal in the face-to-face payments also increased in response to an expansion of cashless payment market. In finance-related services, the transaction volume of a deferred payment service "GMO Payment After Delivery" continued to show favorable growth. As a result, the number of transactions and the transaction volume increased, and net sales increased to ¥13,108 million (up 15.8% year-on-year).

vi. Provider

In this sub-segment, the Company offers Internet provider services for consumers. During the three months ended September 30, 2022, the mobile line service which had declined sharply started to show signs of flattening out due mainly to product improvement. The fixed line service also showed steady growth despite a slowdown in teleworking-related demand. As a result, the number of subscriptions at September 30, 2022 was 2.25 million (up 0.9% year-on-year). The effect of the change in accounting standard was a decrease in net sales of ¥812 million, and as a result, net sales were ¥10,009 million (up 0.1% year-on-year).

Overall, the Internet Infrastructure segment recorded net sales of ¥38,074 million (up 10.9% year-on-year) and operating profit of ¥4,753 million (up 18.2% year-on-year). The effect of applying the Accounting Standard for Revenue Recognition was a decrease in net sales of ¥1,768 million and an increase in operating profit of ¥168 million.

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. In the advertising agency service, the recovery in demand for advertising from the COVID-19 crisis was more than expected. The affiliated ads also showed favorable growth. On the other hand, in-house AdTech 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, continued to show sluggish growth due to competition in media buying. The effect of the change in accounting standard was a decrease in net sales of ¥5,913 million, and as a result, net sales amounted to ¥5,076 million (down 34.6% 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. Advertising revenue increased due to a favorable unit price movement and increased pageviews. The effect of the change in accounting standard was a decrease in net sales of ¥1,114 million, and as a result, net sales were ¥2,598 million (down 21.3% year-on-year).

Overall, the Online Advertising & Media segment recorded net sales of ¥8,886 million (down 26.3% year-on-year), and operating profit of ¥737 million (up 193.0% year-on-year). The effect of applying the Accounting Standard for Revenue Recognition was a decrease in net sales of ¥7,028 million and an increase in operating profit of ¥7 million, and operating results under the previous accounting standard would have been increases in both net sales and operating profit.

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 expanded, with the number of OTC FX accounts increasing to 1,412 thousand (up 50.4% year-on-year) due to consolidation of Gaika ex byGMO in the three months ended September 30, 2021 and the number of securities accounts increasing to 499 thousand (up 5.2% year-on-year). In OTC FX, the rapid depreciation of the yen against the U.S. dollar and increased volatility led to an increase in transaction volume, but profitability decreased due to increased costs of cover transactions. However, net sales increased due to consolidation of Gaika ex byGMO. CFD showed favorable growth thanks to increased volatility in the commodity market. The securities business in Thailand also continued to show steady growth.

Overall, the Internet Finance segment recorded net sales of ¥10,002 million (up 35.4% year-on-year) and operating profit of ¥2,683 million (up 2.1% year-on-year).

4) Cryptoassets

The Cryptoassets segment operates businesses 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. Net sales amounted to ¥241 million (down 85.4% year-on-year) due to declines in the operating rate of machines in the mining facilities and cryptoassets prices.

ii. Cryptoassets exchange

This sub-segment is engaged primarily in spot trading and leveraged transactions of cryptoassets mainly through GMO Coin, a consolidated subsidiary of GMO Financial Holdings. The customer base steadily expanded with the number of customer accounts as of September 30, 2022 increasing to 537 thousand (up 21.0% year-on-year). On the other hand, the transaction value decreased

significantly compared to FY2021 Q3 which reported strong results thanks to the brisk market. As a result, net sales decreased to ¥527 million (down 73.9% year-on-year). We will continue to reinforce our internal efforts including introduction of new currency pairs.

Overall, the Cryptoassets segment reported net sales of ¥775 million (down 78.9% year-on-year) and operating loss of ¥821 million (operating profit of ¥1,482 million for the three months ended September 30, 2021).

5) Incubation

This segment is engaged in investing in domestic and overseas internet related companies aimed at capital gains, supporting business expansion, and supporting corporate value improvement mainly through GMO Venture Partners. Net sales were ¥0 million (¥64 million for the three months ended September 30, 2021), and operating loss was ¥96 million (¥33 million of operating loss for the three months ended September 30, 2021).

(Reference1) Changes in Operating Results and Financial Condition by Quarter

(Unit: ¥millions)

	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
Net sales	56,471	64,494	56,065	69,490	57,578
Operating profit	8,012	10,464	11,128	19,812	7,069
Ordinary profit	8,601	11,171	12,099	21,382	8,955
Profit attributable to owners of the Parent or net loss attributable to owners of the Parent (- represents loss)	3,597	4,227	6,431	9,074	-1,651
Total assets	1,369,409	1,418,936	1,487,484	1,433,731	1,545,403
Shareholders' equity	73,094	73,548	70,415	78,904	74,209

(Reference2)

Table: Quarterly Results by Segment

I Net Sales by Segment

(Unit: ¥millions)

	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
Internet Infrastructure					
Provider (ISP)	10,002	9,825	9,420	9,606	10,009
Domain	2,132	2,188	2,221	2,244	2,379
Hosting & cloud	4,107	4,226	4,484	4,569	4,693
Ecommerce solutions	4,197	4,262	3,559	3,622	3,846
Security	1,978	2,599	2,534	3,090	3,285
Payment	11,323	12,013	12,025	12,657	13,108
Other	593	736	512	874	749
Total	34,335	35,852	34,759	36,666	38,074
Online Advertising & Media					
Online advertising	7,759	8,602	3,831	4,937	5,076
Internet media	3,302	3,788	2,707	2,401	2,598
Internet research & other	996	1,208	1,353	1,174	1,211
Total	12,058	13,599	7,892	8,512	8,886
Internet Finance					
Total	7,386	11,368	10,796	10,363	10,002
Cryptoassets					
Cryptoassets exchange	2,023	1,740	1,078	890	527
Cryptoassets mining	1,653	1,864	856	394	241
Cryptoassets payment	0	770	127	10	6
Total	3,677	4,375	2,062	1,294	775
Incubation					
Total	64	607	536	12,856	0
Sub total	57,523	65,804	56,047	69,693	57,738
Other	437	396	835	865	903
Adjustment	-1,489	-1,705	-817	-1,068	-1,063
Net Sales	56,471	64,494	56,065	69,490	57,578

II Operating Profit by Segment

	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
Internet Infrastructure	4,021	5,530	6,283	5,586	4,753
Online Advertising & Media	251	-136	927	547	737
Internet Finance	2,628	3,856	3,650	2,975	2,683
Cryptoassets	1,482	1,241	159	-397	-821
Incubation	-33	311	252	10,162	-96
Sub total	8,350	10,803	11,272	18,874	7,256
Other	-197	-239	-90	-3	-85
Adjustment	-141	-99	-53	941	-101
Operating Profit	8,012	10,464	11,128	19,812	7,069

(Reference3)

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 registration 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
	Ecommerce solutions	<ul style="list-style-type: none"> • SaaS based services for online store building including Color me shop and operation of EC platform to set up net shop offered by MakeShop. • Operation of C2C handmade marketplace “minne” • Operation of production/sales service of original merchandise including SUZURI and canvath • Operation of factoring service for freelancers “FREENANCE” • Operation of ecommerce/O2O support services, etc. • Operation of OMAKASE, reservation management service for restaurants • 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 • e-contract service “e-contract service GMO Sign” • Cybersecurity service including vulnerability assessment of web and smartphone applications, penetration test and security incident response • Brand security service including brand protection measures, detection and elimination of fake products, provision of trademark management system, and acquisition and management of domain name
	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, Sokkyu by GMO, 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 advertising, 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” and aesthetic medical ticket purchase site “KIREIPASS,” life information site for career women “michill” and ad distribution to own media • SEM Media: Sales of SEO.
	Internet research & 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, CFD trading, etc.
Cryptoassets	Cryptoassets exchange	<ul style="list-style-type: none"> • Spot trading and leveraged transactions of cryptoassets, etc.
	Cryptoassets mining	<ul style="list-style-type: none"> • Operation of mining centers
	Cryptoassets payment	<ul style="list-style-type: none"> • Issuance and redemption of stablecoin “GYEN” and “ZUSD”
Incubation	Venture capital	<ul style="list-style-type: none"> • Investment in private Internet startups

(2) Financial condition

Assets, Liabilities and Net Assets

Assets

As of September 30, 2022, total assets increased ¥126,466 million from December 31, 2021 to ¥1,545,403 million. Major factors included an increase of ¥71,464 million in cash and deposits, an increase of ¥81,264 million in various assets due to fluctuations in customer assets in the Securities segment (deposits, margin transaction assets, loan secured by securities, short-term guarantee deposits and variation margin paid) and a decrease of ¥39,579 million in cryptoassets under custody.

Liabilities

As of September 30, 2022, liabilities increased ¥103,184 million from December 31, 2021 to ¥1,381,718 million. Major factors included an increase of ¥46,130 million in short-term debt, an increase of ¥24,022 million in long-term debt, an increase of ¥75,108 million in various liabilities due to fluctuations in customer assets in the Securities segment (deposits received, margin transaction liability, guarantees received, variation margin received, and loans payable secured by securities) and a decrease of ¥39,782 million in deposits received for cryptoassets.

Net Assets

As of September 30, 2022, net assets increased ¥23,282 million from December 31, 2021 to ¥163,685 million. Major factors included an increase of ¥2,618 million in earned surplus (consisting of an increase from recording profit attributable to owners of the parent totaling ¥13,854 million, a decrease from dividend payments of ¥6,466 million, a decrease from retirement of treasury stock of ¥2,352 million and a decrease of ¥2,416 million in the beginning balance of earned surplus as a result of application of Accounting Standard for Revenue Recognition), an increase of ¥22,633 million in non-controlling interests, a decrease of ¥4,482 million due to acquisition and retirement of treasury stock and an increase of ¥3,551 million in foreign currency translation adjustments.

(3) Consolidated results forecast and other forward-looking information

For the fiscal year ending December 31, 2022, the Group plans to increase both net sales and operating profit, mainly in Internet Infrastructure segment. Meanwhile, there are certain factors that cannot be reasonably predicted at this point, including: (1) fluctuation of cryptoasset prices and global hash rate trends in Cryptoassets business, (2) potential impact of economic situations and market conditions in Internet Finance segment, and (3) when and how much of capital gains will be realized in Incubation segment. Accordingly, we do not disclose the consolidated results forecast for the fiscal year ending December 31, 2022.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheet

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2021)	3rd Quarter Current Fiscal Year (As of September 30, 2022)
Assets		
Current Assets		
Cash and deposits	240,136	311,600
Trade notes and accounts receivable	27,382	—
Trade notes, accounts receivable and contract assets	—	34,192
Operational investment securities	8,449	10,782
Cryptoassets under custody	115,973	76,393
Securities segment deposits	478,489	518,350
Securities segment margin transaction assets	134,732	143,493
Securities segment loan secured by securities	9,626	15,028
Securities segment short term guarantee deposits	67,862	68,720
Securities segment variation margin paid	70,512	96,894
Other	143,655	140,362
Provision for doubtful debts	-3,835	-4,286
Total Current Assets	1,292,984	1,411,533
Fixed Assets		
Tangible fixed assets	44,788	45,698
Intangible fixed assets		
Goodwill	14,251	20,388
Software	10,181	11,225
Other	15,132	15,848
Total intangible fixed assets	39,566	47,462
Investments and other assets		
Investment securities	28,605	27,680
Deferred tax asset	2,328	4,624
Other	11,362	9,182
Provision for doubtful debts	-699	-778
Total investments and other assets	41,597	40,709
Total Fixed Assets	125,952	133,870
Total Assets	1,418,936	1,545,403

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2021)	3rd Quarter Current Fiscal Year (As of September 30, 2022)
Liabilities		
Current Liabilities		
Trade notes and accounts payable	11,921	12,142
Short term debt	172,995	219,126
Amount payable	45,228	40,784
Deposits received for cryptoassets	116,161	76,379
Securities segment deposits received	55,392	48,937
Securities segment margin transaction liability	30,554	41,701
Securities segment guarantees received	519,131	573,326
Securities segment variation margin received	7,677	18,800
Securities segment loans payable secured by securities	20,614	25,711
Accrued corporate tax, etc.	4,731	7,453
Allowance for bonuses	2,948	3,354
Allowance for bonuses to directors	1,452	521
Allowance for contract loss	—	6,341
Advance payment received	11,082	—
Contract liabilities	—	21,586
Deposits received	110,817	95,076
Other	34,272	21,384
Total Current Liabilities	1,144,982	1,212,628
Fixed Liabilities		
Corporate bonds	45,000	51,000
Convertible bonds with equity warrants	20,990	20,825
Long term debt	55,678	79,700
Deferred tax liability	1,568	6,748
Other	9,390	9,870
Total Fixed Liabilities	132,627	168,144
Statutory Reserve		
Financial instruments transaction liability reserve	924	945
Total Statutory Reserve	924	945
Total Liabilities	1,278,533	1,381,718
Net Assets		
Shareholders' Equity		
Capital stock	5,000	5,000
Capital surplus	34,328	33,521
Earned surplus	35,756	38,374
Treasury stock	-5,684	-10,166
Total Shareholders' Equity	69,400	66,729
Accumulated Other Comprehensive Income		
Other securities valuation differences	3,559	3,384
Deferred hedging profit (loss)	—	-43
Foreign currency translation adjustments	588	4,139
Total Accumulated Other Comprehensive Income	4,147	7,479
Equity Warrants	52	40
Non-controlling Interests	66,802	89,435
Total Net Assets	140,402	163,685
Liabilities, Net Assets Total	1,418,936	1,545,403

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statement of income
3rd Quarter (cumulative)

(Unit: ¥millions)

	3rd Quarter Previous Fiscal Year (9 months to September 2021)	3rd Quarter Current Fiscal Year (9 months to September 2022)
Net Sales	176,951	183,134
Cost of Sales	83,947	69,873
Gross Profit on Sales	93,004	113,261
Sales, General & Administrative Expenses	62,371	75,250
Operating Profit	30,633	38,010
Non Operating Revenue		
Dividends received	610	857
Foreign exchange gain	1,028	2,628
Gain on investments in partnership	283	256
Other	966	1,960
Total Non Operating Revenue	2,888	5,702
Non Operating Expenses		
Interest paid	351	658
Equity method investment losses	551	324
Other	395	291
Total Non Operating Expenses	1,299	1,274
Ordinary Profit	32,222	42,438
Extraordinary Profit		
Gain from business transfer	149	—
Gain on sale of investment securities	620	20,527
Reversal of financial instruments transaction liability reserve	185	—
Other	14	16
Total Extraordinary Profit	969	20,543
Extraordinary Loss		
Provision for contract loss	—	6,341
Provision of financial instruments transaction liability reserve	—	21
Compensation for customer's loss	—	241
Loss on valuation of investment securities	5	500
Impairment loss	195	341
Loss on disposal of fixed assets	16	36
Other	30	55
Total Extraordinary Loss	248	7,537
Net Profit before Adjustment for Tax, etc.	32,943	55,443
Corporate, Municipal and Enterprise Taxes	10,474	12,531
Corporate Tax etc. Adjustment	1,029	3,915
Total Corporate Taxes, etc.	11,503	16,446
Net Profit	21,440	38,997
Profit Attributable to Non-controlling Interests	8,139	25,143
Profit Attributable to Owners of the Parent	13,300	13,854

Quarterly consolidated statement of comprehensive income
3rd Quarter (cumulative)

(Unit: ¥millions)

	3rd Quarter Previous Fiscal Year (9 months to September 2021)	3rd Quarter Current Fiscal Year (9 months to September 2022)
Net Profit	21,440	38,997
Other Comprehensive Income		
Other securities valuation differences	3,818	-1,050
Deferred hedging profit (loss)	14	-66
Foreign currency translation adjustments	339	7,087
Share of other comprehensive income (loss) of associates accounted for using equity method	70	-176
Total other comprehensive income	4,241	5,793
Comprehensive Income	25,681	44,790
(Breakdown)		
Comprehensive income attributable to owners of the parent	17,384	17,185
Comprehensive income attributable to non-controlling interests	8,297	27,604

- (3) Notes regarding the quarterly consolidated financial statements
(Notes regarding the going concern assumption)
Not applicable.

(Notes regarding changes impacting shareholders' equity)

Pursuant to the resolutions at the Board of Directors meetings held on February 12, 2021 and February 10, 2022, the Company acquired 1,287,200 shares of treasury stock for ¥3,261 million and 1,597,600 shares of treasury stock for ¥4,253 million, respectively.

Also, pursuant to the resolution at the Board of Directors meeting held on February 21, 2022, the Company retired 1,188,645 shares, which resulted in decreases in capital surplus of ¥680 million, earned surplus of 2,352 million and treasury stock of ¥3,032 million.

As a result, capital surplus, earned surplus and treasury stock as of September 30, 2022 were ¥33,521 million, ¥38,374 million and ¥10,166 million, respectively.

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition)

On January 1, 2022, the Company applied "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan ("ASBJ") Statement No.29, March 31, 2020, "Accounting Standard for Revenue Recognition"), etc., and recognizes revenue at an amount that it expects to receive in exchange for the promised goods or services when the control of the goods or services is transferred to a customer.

Accordingly, we identified performance obligations in the contracts with customers and changed the method to recognize certain initial cost revenue in the Internet Infrastructure segment from recognizing at the commencement of service to recognizing over the service contract period. In addition, the method to recognize revenue for services which the Group is deemed to have provided as an agent was changed from recognizing at gross amount to recognizing at net amount.

We applied the Accounting Standard for Revenue Recognition, etc. from January 1, 2022 pursuant to the transitional treatment provided for in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition, with the cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to January 1, 2022, adjusted to the beginning balance of earned surplus as of January 1, 2022.

As a result, net sales for the nine months ended September 30, 2022 decreased by ¥23,611 million, cost of sales decreased by ¥21,444 million, sales, general and administrative expenses decreased by ¥2,312 million, and operating profit, ordinary profit and net profit before adjustment for tax etc. increased by ¥144 million, respectively. Also, the beginning balance of earned surplus decreased by ¥2,416 million.

As a result of the application of the Accounting Standard for Revenue Recognition, etc., "Trade notes and accounts receivable" which was presented in "Current Assets" on the consolidated balance sheet as of December 31, 2021 is included in "Trade notes, accounts receivable and contract assets" from January 1, 2022. Also, "Advance payment received" which was presented in "Current liabilities" and "Unearned revenue" included in "Other " in "Current liabilities" are included in "Contract liabilities" from January 1, 2022.

Pursuant to the transitional treatment stipulated by Paragraph 89-2 of the Accounting Standard for Revenue Recognition, the Group did not reclassify figures for the year ended December 31, 2021 to conform to the new presentation method. Also, pursuant to the transitional treatment provided for in Paragraph 28-15 of the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12, March 31, 2020), information on the breakdown of revenue arising from contracts with customers for the nine months ended September 30, 2021 is not presented.

(Application of Accounting Standard for Fair Value Measurement)

On January 1, 2022, the Company applied “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, “Accounting Standard for Fair Value Measurement”), etc., and the new accounting policies specified in the Accounting Standard for Fair Value Measurement, etc. are applied prospectively pursuant to the transitional treatment prescribed in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). The impact on the Quarterly Consolidated Financial Statements is insignificant.

(Segment Information)

I 3rd Quarter of Previous Fiscal Year (01.01.2021-09.30.2021)

1. Information relating to net sales and profit or loss by reportable segment

(Unit: ¥millions)

	Reportable Segment						Other (*i)	Adjustment (*ii)	Consolidated P/L (*iii)
	Internet Infrastructure	Online Ad & Media	Internet Finance	Cryptoassets	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	102,105	34,123	22,531	16,259	962	175,981	969	—	176,951
Internal transactions or transfer	804	4,348	—	—	—	5,153	225	-5,378	—
Total	102,909	38,471	22,531	16,259	962	181,135	1,195	-5,378	176,951
Segment Profit/Loss	13,702	1,323	7,859	7,852	473	31,211	-382	-195	30,633

*Notes

- i. “Other” represents mobile entertainment and other businesses not included in reportable segments.
- ii. Segment profit or loss adjustment (¥-195 million) is an elimination of inter-segment transactions.
- iii. Segment profit/loss is based on operating profit in the quarterly consolidated statement of income.

2. Information on impairment losses on fixed assets or goodwill by reporting segment.

(Significant impairment loss on fixed assets)

For the nine months ended September 30, 2021, the Internet Infrastructure and Other segments recognized impairment loss on fixed assets of ¥131 million and ¥64 million, respectively.

(Significant change in goodwill)

In the Internet Finance segment, the amount of goodwill recognized as a result of the business combination with Gaika ex byGMO, Inc. in the three months ended September 30, 2021 was a provisional amount as the allocation of the acquisition cost had not been completed. However, the amount of goodwill was revised as the provisional accounting treatment was finalized after the allocation was completed at the end of the fiscal year ended December 31, 2021.

II 3rd Quarter of Current Fiscal Year (01.01.2022-09.30.2022)

1. Information relating to net sales and profit or loss by reportable segment

(Unit: ¥millions)

	Reportable Segment						Other (*i)	Adjustment (*ii)	Consolidated P/L (*iii)
	Internet Infrastructure	Online Ad & Media	Internet Finance	Cryptoassets	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	108,563	23,528	31,162	4,133	13,392	180,781	2,353	—	183,134
Internal transactions or transfer	935	1,763	—	—	—	2,698	250	-2,949	—
Total	109,499	25,291	31,162	4,133	13,392	183,479	2,604	-2,949	183,134
Segment Profit/Loss	16,622	2,212	9,309	-1,059	10,318	37,403	-179	786	38,010

*Notes

- i. "Other" represents mobile entertainment and other businesses not included in reportable segments.
- ii. Segment profit/loss adjustment (¥786 million) is an elimination of inter-segment transactions.
- iii. Segment profit/loss is based on operating profit in the quarterly consolidated statement of income.

2. Information on changes in reportable segments, etc.

As described in Changes in accounting policies, following the application of the Accounting Standard for Revenue Recognition, etc. on January 1, 2022, the Group changed the accounting treatment for revenue recognition and also the method to measure segment profit (loss) accordingly.

Compared to the previous method, for the nine months ended September 30, 2022, in the Internet Infrastructure segment, net sales decreased by ¥6,221 million and segment profit increased by ¥85 million; in the Online Advertising & Media segment, net sales decreased by ¥20,421 million and segment profit increased by ¥59 million; and in the Internet Finance segment, net sales decreased by ¥16 million and there was no impact on segment profit. There was no impact on the Cryptoassets and Incubation segments. Also, "Adjustment" for Internal transactions or transfer decreased by ¥3,048 million and there was no impact on the adjustment for segment profit.

3. Information on impairment losses on fixed assets or goodwill by reporting segment
(Impairment loss on fixed assets)

For the nine months ended September 30, 2022, the Online Ad & Media, the Cryptoassets and Other segments recognized impairment loss on fixed assets of ¥34 million, ¥12 million and ¥293 million, respectively.

(Significant change in goodwill)

In the Internet Infrastructure segment, goodwill in regard to the business combination with GMO Cybersecurity by Ierae, Inc. that took place at the end of the three months ended March 31, 2022 was recorded at a provisional amount as the allocation of the acquisition cost was not completed. During the three months ended June 30, 2022, the provisional accounting treatment was finalized after the allocation was completed, which resulted in a change in the amount of goodwill from ¥7,724 million, a provisionally calculated amount, to ¥7,606 million.

(Significant subsequent event)

Not applicable