

## Fiscal Year 2019 Consolidated Financial Results (Japanese GAAP)

February 12, 2020

Name of Listed Company: GMO Internet, Inc.

Exchange Listing: Tokyo Stock Exchange

Stock Code: 9449

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

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Date of Annual General Shareholders Meeting: March 30, 2020 Start Date of Dividend Payout: March 16, 2020

Date of Annual Report Release: March 23, 2020

Supplementary documents available pertaining to financial results: Yes

Financial results briefing: Yes (live stream only)

### 1. Consolidated Results in the Fiscal Year Ended December 31, 2019 (01.01.2019- 12.31.2019)

#### (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	%
FYE12/2019	196,171	5.9	25,279	16.0	24,506	28.1	8,337	—
FYE12/2018	185,177	20.0	21,787	23.5	19,135	10.5	-20,707	—

(Note) Comprehensive Income: FYE 12/2019 ¥ 16,686 million (- %), FYE 12/2018 ¥ -12,525 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
	¥	¥	%	%	%
FYE12/2019	73.16	72.08	15.7	3.0	12.9
FYE12/2018	-179.92	—	-43.1	2.5	11.8

(Reference) Earnings/Loss on Equity Method Investment: FYE 12/2019 ¥-877 million, FYE 12/2018 ¥-829 million

(Note) Diluted net profit per share for the year ended December 31, 2018 is omitted as net loss was recorded.

#### (2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio	Shareholders' Equity per Share
	¥ millions	¥ millions	%	¥
FYE12/2019	871,214	102,269	6.2	474.95
FYE12/2018	752,454	96,421	7.0	455.48

(Reference) Shareholders' Equity: FYE 12/2019 ¥53,784 million, FYE 12/2018 ¥52,422 million

(Note) Effective January 1, 2019, the Company applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018), etc., and the accounting standard, etc. is applied retrospectively to the figures for the year ended December 31, 2018.

#### (3) Consolidated Cash Flow

	Cash Flow from Operating Activities	Cash Flow from Investing Activities	Cash Flow from Financing Activities	Cash and Equivalents End of Term Balance
	¥ millions	¥ millions	¥ millions	¥ millions
FYE12/2019	7,502	-21,617	30,323	159,715
FYE12/2018	13,127	-29,899	43,960	143,650

### 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			
	¥	¥	¥	¥	¥	¥ millions	%	%
FYE12/2018	6.00	6.20	5.50	11.80	29.50	3,395	—	7.1
FYE12/2019	6.00	6.00	7.20	5.00	24.20	2,751	33.1	5.2
FYE12/2020 (forecast)	—	—	—	—	—	—	—	—

### 3. Consolidated Results Forecast for the Year Ending December 31, 2020 (01.01.2020 – 12.31.2020)

As the Group's business "Internet Finance business," "Cryptocurrency business" and "Incubation business" are affected by economic conditions, financial markets, cryptocurrency and other market conditions, it is difficult to forecast business performance, and therefore we do not disclose consolidated business results and dividend forecast for the year ending December 31, 2020. GMO Financial Holdings, Inc., our subsidiary, discloses sales indicators, such as foreign exchange margin transaction volume, stock brokerage trading value, cryptocurrency 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

Excluded: 1 company (GMO Venture Partners 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 12/2019	113,242,987	FYE 12/2018	115,096,887
FYE 12/2019	1,880	FYE 12/2018	4,004
FYE 12/2019	113,963,041	FYE 12/2018	115,088,156

(Reference) Summary of Non-Consolidated Financial Results

1. Non-consolidated Results in the Fiscal Year Ended December 31, 2019 (01.01.2019 - 12.31.2019)

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

	Net Sales		Operating Profit		Ordinary Profit		Net Profit	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
FYE12/2019	56,021	17.3	624	25.1	6,459	1.9	4,592	-63.7
FYE12/2018	47,761	26.6	499	-52.6	6,338	10.4	12,658	180.2

	Net Profit per Share	Net Profit per Share (Diluted)
	¥	¥
FYE12/2019	40.30	—
FYE12/2018	109.98	—

(2) Non-consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net assets per Share
	¥ millions	¥ millions	%	¥
FYE12/2019	72,911	25,328	34.7	223.66
FYE12/2018	76,245	27,402	35.9	238.08

(Reference) Shareholders' Equity: FYE 12/2019 ¥25,328 million, FYE 12/2018 ¥27,402 million

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

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

(Notes on forward-looking statements)

Although the Company aims to pay dividends quarterly with the aim of paying dividends with a 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, 2020, 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. Overview of Operating Results, etc.

Effective January 1, 2019, the Company applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018), etc., and the year-on-year comparison and analysis of financial position have been conducted using the figures to which the accounting standard, etc. is applied retrospectively.

### (1) Overview of operating results

Overview of the financial results for the year ended December 31, 2019

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 cloud, artificial intelligence and blockchain, and new movements such as B2B, C2C, O2O and IoT. 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 healthy business environment, (1) the Internet Infrastructure segment, already comprising multiple No. 1 products, recorded solid performance in all businesses in the segments including Payment, Ecommerce Solutions, and Provider, with the total number of contract exceeding 10 million. (2) The Online Advertising & Media segment has focused on function enhancement and development of proprietary products with the objective of responding to changes in the online advertising market. However, sales of in-house ad network products were weak due to the tightened posting criteria aiming at quality improvement, and sales termination of existing products also had a negative impact. (3) The Internet Finance segment experienced a decline in transaction volume caused by a temporary decline in profitability of over-the-counter FX transactions attributable to a sudden fluctuation in exchange rates in the foreign exchange market earlier this year and also due to a decline in volatility, but maintained high profitability as a result of improvement measures such as big data analysis. (4) The Cryptocurrency segment recorded profit due to cost reduction attributable to the successful business restructuring of Cryptocurrency mining business and also due to the absence of valuation loss on proprietary positions which was temporarily recorded in FY2018.

As a result, for the fiscal year ended December 31, 2019, the Group recorded net sales of ¥196,171 million (up 5.9% year-on-year), operating profit of ¥25,279 million (up 16.0% year-on-year), ordinary profit of ¥24,506 million (up 28.1% year-on-year), and net profit attributable to owners of the parent of ¥8,337 million (loss of ¥20,707 million for the year ended December 31, 2018).

(Unit: ¥millions)

	Previous Fiscal Year	Current Fiscal Year	Change	% Change
Net Sales	185,177	196,171	10,993	5.9%
Operating Profit	21,787	25,279	3,491	16.0%
Ordinary Profit	19,135	24,506	5,371	28.1%
Profit or Loss Attributable to Owners of the Parent (- represents Loss)	-20,707	8,337	29,044	—

Net sales and Operating profit by segment for the consolidated fiscal year ended December 31, 2019

(Unit: ¥millions)

	Previous Fiscal Year	Current Fiscal Year	Change	% Change
Internet Infrastructure				
Net Sales	100,808	114,076	13,267	13.2%
Operating Profit	11,442	14,060	2,618	22.9%
Online Advertising & Media				
Net Sales	46,795	46,812	16	0.0%
Operating Profit	763	549	-213	-28.0%
Internet Finance				
Net Sales	30,718	28,570	-2,148	-7.0%
Operating Profit	10,758	8,513	-2,245	-20.9%
Cryptocurrency				
Net Sales	8,246	6,072	-2,174	-26.4%
Operating Profit	-1,362	958	2,321	—
Incubation				
Net Sales	2,313	3,910	1,596	69.0%
Operating Profit	1,221	2,530	1,309	107.2%
Other				
Net Sales	1,527	1,933	405	26.6%
Operating Profit	-1,106	-1,418	-311	—
Adjustment				
Net Sales	-5,233	-5,202	30	—
Operating Profit	70	84	13	—
Total				
Net Sales	185,177	196,171	10,993	5.9%
Operating Profit	21,787	25,279	3,491	16.0%

Segment results for the year ended December 31, 2019 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.

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, 2019 was 5.68 million (up 6.8% year-on-year), and total number of domains under management as of December 31, 2019 was 7.06 million (up 10.3% year-on-year). Net sales were ¥9,074 million (up 7.0% 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. The number of web hosting contracts as of December 31, 2019 was 872 thousand (up 1.7% year-on-year) and net sales were ¥14,368 million (up 0.7% year-on-year).

iii. Ecommerce solutions

Ecommerce solutions comprises SaaS based services for online stores, C2C handmade market, *minne*, and O2O support service. In the SaaS based services, the number of paid stores as of December 31, 2019 decreased 3.5% year-on-year to 69 thousand, but spending per customer increased thanks to upselling strategies. As for *minne*, total transaction volume was ¥11.98 billion (down 0.8% year-on-year) after a shift from a large-scale promotion aiming at gaining recognition to efficient operation. As a result, net sales were ¥11,825 million (up 12.3% year-on-year).

#### iv. Security

In this segment, GlobalSign, a consolidated subsidiary of GMO Cloud, is offering a security brand “GlobalSign” worldwide, and direct sales targeting large corporations and active sales partners drove market share growth both in Japan and globally with the benefit of the penetration of Always-On SSL. During the year ended December 31, 2019, despite an impact of appreciation of the yen against the sterling in the main European market, the number of certificate issued steadily increased, and this sub-segment reported net sales of ¥6,342 million (up 6.0% 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 payment-related service showed favorable growth due to solid growth in the Ecommerce market as well as the expansion of our service offering to those other than Ecommerce operators. In finance-related services, a deferred payment service “GMO Payment After Delivery” as well as remittance service showed favorable growth. As a result of these efforts, the number of transactions and the transaction volume increased, and net sales increased to ¥33,327 million (up 14.7% year-on-year).

#### vi. Provider

This sub-segment operates Internet provider services for consumers. Due to the expansion of product lineup, increased sales mainly through web marketing, and increased OEM sales, the number of subscriptions at December 31, 2019 significantly increased to 1.80 million (up 30.4% year-on-year) and net sales also largely increased to ¥33,618 million (up 27.9% year-on-year).

As a result, overall net sales of the Internet Infrastructure segment amounted to ¥114,076 million (up 13.2% year-on-year). Operating profit increased significantly to ¥14,060 million (up 22.9% year-on-year) due mainly to sales growth in Payment and Provider business as well as optimization of the promotion cost for *minne*.

### 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, GMO TECH. The online advertising market is expected to further expand, driven by demand generated by a shift from existing media such as TV by major clients. On the other hand, the competition in the market has been intensifying due to market entry by major advertising companies in addition to companies specializing in online advertising. Amid such circumstances, we worked to enhance the medium and long-term competitiveness of our in-house ad network products such as *AkaNe*, an ad network for smartphones, and *ReeMo*, an ad distribution platform (DSP) specialized in collecting users, by tightening posting criteria to improve reliability while our advertising agency business is showing favorable growth as a result of our focused sales efforts targeting large clients. As a result, net sales amounted to ¥32,471 million (up 2.8% year-on-year).

#### ii. Internet Media

This sub-segment provides advertising space within our own smartphone and PC content and marketing support services mainly through GMO Media. While ecommerce media was strong, media targeting teenage girls was weak due to decreases in the number of site visitors and advertisement unit price. Also due to the effect of sales termination of existing products for small- and medium-size businesses, net sales were ¥11,077 million (down 8.2% year-on-year)

Overall, the Online Advertising & Media segment recorded net sales of ¥46,812 million (up 0.0% year-on-year), and operating profit of ¥549 million (down 28.0% year-on-year). The segment will continue to focus on development and sales of new proprietary products meeting market needs.

### 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 has continued to increase with the number of OTC FX accounts increasing to 850 thousand (up 11.2% year-on-year) and the number of Securities accounts increasing to 415 thousand (up 11.6% year-on-year) as of December 31, 2019. The OTC FX trading, which accounts for more than half of net sales and profit of the segment, maintained high profitability through improvement measures such as big data analysis, despite a temporary decline in profitability due to sudden fluctuations in the foreign exchange market earlier this year and a decline in the transaction volume due to a decline in volatility.

Overall, the Internet Finance segment recorded net sales of ¥28,570 million (down 7.0% year-on-year) and operating profit of ¥8,513 million (down 20.9% year-on-year).

#### 4) Cryptocurrency

The Cryptocurrency segment operates business pertaining to “mining” and “exchange” of cryptocurrency. Performance of each business is as follows.

##### i. Cryptocurrency mining

The Cryptocurrency mining business runs mining centers. As the business is currently under restructuring process, the Company’s hash rates have declined temporarily, resulting in a decrease in BTC mining volume, and therefore net sales decreased to ¥2,142 million (down 49.1% year-on-year).

##### ii. Cryptocurrency exchange

In this business, GMO Coin, a consolidated subsidiary of GMO Financial Holdings, are engaged in spot trading and leveraged transactions of cryptocurrency. The customer base has continued expanding with the number of account opening increasing to 299 thousand (up 32.8% year-on-year). However, due to an impact from early adoption of the self-regulatory codes by Japan Virtual Currency Exchange Association to lower the leverage cap for margin transactions in late July, net sales decreased to ¥3,929 million (down 2.6% year-on-year).

Overall, the Cryptocurrency segment recorded net sales of ¥6,072 million (down 26.4% year-on-year) and recorded operating profit of ¥958 million (loss of ¥1,362 million for the year ended December 31, 2018) as the cryptocurrency mining business recorded profit as a result of cost reduction through business restructuring and also due to an absence of valuation loss on proprietary positions temporarily recorded in FY2018.

#### 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 ¥3,910 million (up 69.0% year-on-year) and operating profit was ¥2,530 million (up 107.2% year-on-year) due to sale of shareholdings in relation to the initial public offering of the investee.

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

(Unit: ¥millions)

	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Net Sales	48,013	46,863	49,174	50,975	49,157
Operating Profit	4,468	5,000	5,957	8,972	5,348
Ordinary Profit	2,626	4,886	5,766	8,638	5,215
Profit or Loss Attributable to Owners of the Parent (- Represents Loss)	-26,856	2,024	2,010	2,580	1,722
Total Assets	752,454	771,614	774,316	813,122	871,214
Shareholders' Equity	52,422	53,012	50,577	52,509	53,784

## (Reference 2) Quarterly Results by Segment/Business

(Unit: ¥millions)

## I Net Sales by Segment

	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Internet Infrastructure					
Provider (ISP)	7,333	7,744	8,429	8,603	8,841
Domain	2,132	2,234	2,380	2,204	2,255
Hosting & cloud	3,604	3,549	3,610	3,606	3,602
Ecommerce solutions	3,019	3,038	2,816	2,984	2,985
Security	1,573	1,580	1,563	1,543	1,655
Payment	8,182	7,838	8,027	8,418	9,042
Other	1,283	1,504	1,607	1,183	1,223
Total	27,129	27,489	28,434	28,544	29,607
Online Advertising & Media					
Online advertising	8,282	8,341	8,064	7,779	8,285
Internet media	2,832	2,934	2,746	2,729	2,666
Internet research and other	934	800	762	805	895
Total	12,049	12,076	11,573	11,315	11,847
Internet Finance					
Total	7,512	6,397	7,474	7,958	6,740
Cryptocurrency					
Cryptocurrency exchange	1,053	507	1,494	1,085	842
Cryptocurrency mining	1,280	786	613	487	254
Total	2,334	1,294	2,108	1,572	1,096
Incubation					
Total	7	328	147	2,483	951
Sub total	49,033	47,586	49,738	51,873	50,242
Other	394	414	908	283	328
Adjustment	-1,415	-1,137	-1,471	-1,180	-1,413
Net Sales	48,013	46,863	49,174	50,975	49,157

## II Operating Profit by Segment

	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Internet Infrastructure	3,157	3,615	3,583	3,762	3,099
Online Advertising & Media	326	246	95	64	142
Internet Finance	2,263	1,469	2,315	2,919	1,808
Cryptocurrency	-986	-229	678	424	86
Incubation	-216	114	11	1,919	485
Sub total	4,545	5,216	6,683	9,090	5,622
Other	-96	-193	-788	-135	-301
Adjustment	19	-23	61	17	27
Operating Profit	4,468	5,000	5,957	8,972	5,348



(Reference 3) Description of businesses in each segment

Business Segment		Main Operations
Internet Infrastructure	Domain	<ul style="list-style-type: none"> <li>• Domain registry services including “shop” and “tokyo”</li> <li>• Domain registrations services: Onamae.com, MuuMuu Domain, and VALUE-DOMAIN</li> </ul>
	Hosting & Cloud	<ul style="list-style-type: none"> <li>• Provision, operation, management, and maintenance of shared, VPS, dedicated and cloud-based web hosting services including Onamae.com Rental Server, GMO AppsCloud, ConoHa by GMO, Z.com Cloud, GMO Cloud VPS, GMO Cloud Altus, GMO Cloud Private, KaKing, Lolipop!, heteml, and 30days Album</li> </ul>
	Ecommerce Solutions	<ul style="list-style-type: none"> <li>• SaaS based services for online store building including Color me shop and MakeShop.</li> <li>• Operation of C2C handmade marketplace, minne</li> <li>• Operation of production/sales service of original merchandise including SUZURI and canvath</li> <li>• Operation of ecommerce/O2O support services, etc.</li> <li>• Web design, operational support and system consulting, etc.</li> </ul>
	Security	<ul style="list-style-type: none"> <li>• DomainSSL, OrganizationSSL, and other SSL certificates, code signing certificates, PDF document signing, client certificates and other digital certificate services</li> </ul>
	Payment	<ul style="list-style-type: none"> <li>• 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</li> </ul>
	Provider	<ul style="list-style-type: none"> <li>• GMO TokuToku BB and other Internet provider services.</li> </ul>
Online Advertising & Media	Online advertising	<ul style="list-style-type: none"> <li>• Comprehensive online advertising service including listing, mobile and ad networks, reward advertising, affiliate advertising.</li> <li>• Advertising planning and production</li> </ul>
	Internet media	<ul style="list-style-type: none"> <li>• 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 blog service “JUGEM” and ad distribution to own media</li> <li>• SEM Media: Sales of SEO.</li> </ul>
	Internet research and other	<ul style="list-style-type: none"> <li>• Provision of Internet research systems, management and operation of online research panel including GMO Research Cloud Panel</li> </ul>
Internet Finance	Internet finance	<ul style="list-style-type: none"> <li>• Operation of online securities trading, FX trading services, etc.</li> </ul>
Cryptocurrency	Cryptocurrency exchange	<ul style="list-style-type: none"> <li>• Spot trading and leveraged transactions of cryptocurrency</li> </ul>
	Cryptocurrency mining	<ul style="list-style-type: none"> <li>• Operation of mining centers</li> </ul>
Incubation	Venture capital	<ul style="list-style-type: none"> <li>• Investment in private Internet startups</li> </ul>

## (2) Overview of Financial Condition

### Assets, Liabilities and Net Assets

#### (Assets)

As of December 31, 2019, total assets increased ¥118,759 million (15.8%) from December 31, 2018 to ¥871,214 million. Major factors included an increase of ¥52,131 million (11.4%) 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 ¥16,219 million (11.3%) in cash and deposits, an increase of ¥5,878 million (57.4%) in tangible fixed assets, an increase of ¥27,017 million (38.2%) in other current assets due to an increase in advance payments, and an increase of ¥3,500 million (25.2%) in cryptocurrency received,.

#### (Liabilities)

As of December 31, 2019, liabilities increased ¥112,911 million (17.2%) from December 31, 2018 to ¥768,944 million. Major factors included an increase of ¥48,722 million (12.3%) 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 ¥43,735 million (48.4%) in debt, an increase of ¥20,496 million (36.7%) in deposits received, a decrease of ¥5,099 million (70.4%) in accrued corporate tax etc., and an increase of ¥3,500 million (25.2%) in cryptocurrency received.

#### (Net Assets)

As of December 31, 2019, net assets increased ¥5,847 million (6.1%) from December 31, 2018 to ¥102,269 million. Major factors included an increase of ¥4,795 million (32.7%) in earned surplus (consisting mainly of an increase from recording profit attributable to owners of the parent totaling ¥8,337 million and a decrease from dividend payments of ¥3,543 million), a decrease of ¥3,648 million (11.8%) in capital surplus due mainly to retirement of treasury stock, and an increase of ¥4,484 million (10.2%) in non-controlling interests.

## (2) Overview of Cash Flows

### Cash Flow

As of December 31, 2019, cash and equivalents increased ¥16,063 million (11.2%) from December 31, 2018 to ¥159,715 million. The following is a summary of cash flow activity during the year ended December 31, 2019.

#### (Cash Flow from Operating Activities)

Inflow in operating activities was ¥7,502 million (¥13,127 million of inflow in FY2018). Major inflow included net profit before adjustment for tax, etc. (¥22,621 million) and an increase in deposits received (¥20,494 million). Major outflow included payment of corporate taxes, etc. (¥14,908 million), a decrease in trade payables (¥14,433 million) and an increase in various assets due to increased customer assets in the Internet Finance segment (¥3,409 million).

#### (Cash Flow from Investing Activities)

Outflow from investing activities totaled ¥21,617 million (¥29,899 million of outflow in FY2018). Major outflow included acquisition of tangible fixed assets (¥7,122 million), payment of deposits (¥5,918 million), acquisition of intangible fixed assets (¥4,052 million) and acquisition of investment securities (¥3,003 million).

#### (Cash Flow from Financing Activities)

Inflow from financing activities totaled ¥30,323 million (¥43,960 million of inflow in FY2018). Major outflow included dividend payments (¥3,545 million), dividend payments to non-controlling interests (¥3,242 million), and acquisition of treasury stock (¥3,110 million). Major inflow included changes in long term debt (¥43,731 million).

### (Reference) Cash Flow Indicators

	FYE12/2015	FYE12/2016	FYE12/2017	FYE12/2018	FYE12/2019
Shareholders' equity ratio (%)	7.1	6.7	5.8	7.0	6.2
Shareholders' equity ratio (market value) (%)	34.0	29.4	29.5	22.5	27.0
Ratio of cash flow to Interest-bearing liabilities (years)	-	18.6	17.5	8.7	17.8
Interest coverage ratio (times)	-	6.9	11.5	19.3	9.6

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.

(\*5) Ratio of cash flow to Interest-bearing liabilities and Interest coverage ratio for FY2015 are not disclosed as operating cash flow was negative in that year.

#### (4) Future outlook

For the fiscal year ending December 31, 2020, the Group plans to increase both net sales and profits, mainly in Internet infrastructure segment. Meanwhile, there are certain factors that cannot be reasonably predicted at this point, including: (1) fluctuation of cryptocurrency price and global hash rates' movement in the cryptocurrency business, (2) potential impact of economic situations and market conditions in the Internet finance segment, and (3) when and how much capital gains will be realized in the Incubation segment. Accordingly, we will not disclose the consolidated results forecast for the fiscal year ending December 31, 2020.

#### (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 ¥24.2 per share (dividend payout ratio: 33.1%) for the year ended December 31, 2019.

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. Management Policy

### (1) Basic Management Principles

Under the corporate slogans "Internet for Everyone," and as "Japan's Leading All-in Provider of Internet Services," we focus our business resources on the internet and service infrastructure, the "place" for the internet. We conduct business activities with an aim to contribute to society by redefining the industry and fostering a vibrant Internet culture as well as inspiring enthusiasm in our customers and putting smiles on their faces.

### (2) Target management indicators

GMO Internet Group is committed to "sustainable profit growth." Specifically, the Group focuses on operating profit ratio and operating profit growth ratio as an important management indicator. In a rapidly changing industry environment, we believe that mid-term management plans are of limited use and could in fact be misleading to investors and shareholders. Accordingly, we do not develop or disclose the mid-term management plans, but we are continuously aiming for further improvement.

### (3) Medium to Long-Term Business Strategies

The Group's Internet Infrastructure, Online Advertising & Media, Internet Finance, Cryptocurrency and Incubation business segments operate under the corporate slogan "Internet for Everyone." Going forward, we expect opportunities to use and time spent on the internet to further increase due to factors including the penetration and diversification of smartphone and other devices as well as a shift from existing services to online services. The Group will constantly strive to improve highly functional and convenient services and provide number one service with cutting-edge technology, with an aim to contribute to the growth and development of the internet.

### (4) Company Challenges

#### 1. Group Strategy

##### (i) Pursuit of group synergy

The Group is comprised of the Company and its 113 consolidated subsidiaries, and each company retains autonomous decision-making power in order to act with speed and agility in the constantly evolving Internet market. At the same time, we share a common vision within the Group with an aim to mutually generate synergies and ensure efficient use of the Group's management resources.

#### (ii) Global development

The Group is actively expanding its global business in security and other areas. We believe it is important to establish a position as an “All-in Provider of Internet Services” globally in order to expand into high-growth international markets. We will promote further growth of “.shop.” We will also use one-character domain name, Z.com as the Group’s global brand with the objective of establishing a business platform in the global market and accelerating global expansion in the Internet Infrastructure and Internet Finance segments.

### 2. Business Strategy

#### (i) Internet Infrastructure

In this segment, products and services are developed in-house to enable us to provide products and services meeting customer needs and to offer one-stop service for business platform for online businesses. The majority of the products generates recurring revenue, which is the strong revenue base for the Group. The Group continues its efforts to develop services meeting customer needs and increase customer satisfaction by adding financial services such as factoring and lending and enhancing the operation and support structure.

#### (ii) Online Advertising & Media

In response to changes in the market environment, the Group is working on strengthening ad technology and developing proprietary products. Going forward we will continue to accelerate the technology shift in the segment, focusing on smartphone advertising and app development with the objective of producing number 1 products as early as possible.

#### (iii) Internet Finance

In the Internet Finance segment, we have built a highly cost-effective business, with all system development, operation and maintenance carried out in-house. Under the cost-leadership strategy, the segment is actively expanding customer base in domestic and global markets and became the world number one in FX margin transaction volume for the seventh consecutive year. Going forward we will continue to improve trading costs and other aspects of the customer experience.

#### (iv) Cryptocurrency

The Cryptocurrency business operates in mining, exchange and payment fields. In the mining field, as announced in the news release dated December 25, 2018, “Recording Extraordinary Loss Related to the Cryptocurrency Mining Business Restructuring,” we no longer develop, manufacture or sell mining machines but continue in-house mining business which operates mining centers after reviewing its revenue structure. In the exchange field (the cryptocurrency exchange business operated by GMO Coin), we aim to be the number one cryptocurrency exchange/clearing house in Japan by taking advantage of the technique and know-how accumulated in the finance business. In the payment field, we plan to launch a Japanese yen-pegged stablecoin “GMO Japanese YEN” in overseas markets.

### 3. Technology Development

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

#### 4. 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 are monitoring domestic and international trends with a view to adapting as necessary.

## 5. Consolidated Financial Statements

### (1) Consolidated Balance Sheet

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2018)	Current Fiscal Year (As of Dec 31, 2019)
<b>Assets</b>		
<b>Current Assets</b>		
Cash and deposits	144,096	160,315
Trade notes and accounts receivable	20,725	22,140
Operational investment securities	7,006	7,732
Cryptocurrency received	13,903	17,404
Securities segment deposits	269,696	308,037
Securities segment margin transaction assets	81,551	98,246
Securities segment loan secured by securities	7,558	9,531
Securities segment short term guarantee deposits	57,579	55,052
Securities segment variation margin paid	40,282	37,932
Other	70,702	97,719
Provision for doubtful debts	-2,570	-3,029
<b>Total Current Assets</b>	<b>710,532</b>	<b>811,083</b>
<b>Fixed Assets</b>		
<b>Tangible fixed assets</b>		
Buildings and structures (net)	2,079	5,258
Tools and equipment (net)	5,054	7,491
Lease assets (net)	2,566	3,035
Other (net)	540	332
<b>Total tangible fixed assets</b>	<b>10,240</b>	<b>16,118</b>
<b>Intangible fixed assets</b>		
Goodwill	1,843	2,778
Software	5,818	6,836
Other	8,451	6,975
<b>Total intangible fixed assets</b>	<b>16,113</b>	<b>16,590</b>
<b>Investments and other assets</b>		
Investment securities	7,617	9,881
Deferred tax asset	4,971	6,540
Other	7,168	15,169
Provision for doubtful debts	-4,189	-4,169
<b>Total investments and other assets</b>	<b>15,567</b>	<b>27,420</b>
<b>Total Fixed Assets</b>	<b>41,922</b>	<b>60,130</b>
<b>Total Assets</b>	<b>752,454</b>	<b>871,214</b>

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2018)	Current Fiscal Year (As of Dec 31, 2019)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade notes and accounts payable	10,833	10,390
Short term debt	75,112	117,516
Current portion of long term debt	5,708	4,695
Amount payable	36,363	36,405
Cryptocurrency received	13,903	17,404
Securities segment deposits received	43,131	52,586
Securities segment margin transaction liability	24,995	35,496
Securities segment guarantees received	309,449	338,161
Securities segment variation margin received	5,589	3,506
Securities segment debt secured by securities	12,714	14,849
Accrued corporate tax etc.	7,240	2,141
Provision for bonuses	1,684	1,733
Provision for bonuses to directors	752	74
Advance payment received	7,644	9,645
Deposits received	55,881	76,378
Other	9,886	10,730
<b>Total Current Liabilities</b>	<b>620,892</b>	<b>731,716</b>
<b>Fixed Liabilities</b>		
Convertible bonds with equity warrants	17,450	17,348
Long term debt	9,522	11,866
Deferred tax liability	274	134
Other	6,306	6,646
<b>Total Fixed Liabilities</b>	<b>33,553</b>	<b>35,996</b>
<b>Statutory Reserve</b>		
Financial instruments transaction liability reserve	1,587	1,231
<b>Total Statutory Reserve</b>	<b>1,587</b>	<b>1,231</b>
<b>Total Liabilities</b>	<b>656,033</b>	<b>768,944</b>
<b>Net Assets</b>		
<b>Shareholders' Equity</b>		
Capital stock	5,000	5,000
Capital surplus	30,981	27,332
Earned surplus	14,678	19,474
Treasury stock	-7	-3
<b>Total Shareholders' Equity</b>	<b>50,651</b>	<b>51,803</b>
<b>Accumulated Other Comprehensive Income</b>		
Other securities valuation differences	789	968
Deferred hedging profit/loss	0	6
Foreign currency translation adjustments	981	1,005
<b>Total Accumulated Other Comprehensive Income</b>	<b>1,771</b>	<b>1,981</b>
Equity Warrants	77	78
Non-Controlling Interests	43,920	48,405
<b>Total Net Assets</b>	<b>96,421</b>	<b>102,269</b>
<b>Total Liabilities and Net Assets</b>	<b>752,454</b>	<b>871,214</b>



## (2) Consolidated Statements of Income and Comprehensive Income

## Consolidated Statement of Income

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2018-12.31.2018)	Current Fiscal Year (01.01.2019-12.31.2019)
Net Sales	185,177	196,171
Cost of Sales	94,896	100,378
Gross Profit on Sales	90,281	95,793
Sales, General & Administrative Expenses	68,494	70,514
Operating Profit	21,787	25,279
Non-Operating Revenue		
Interest received	123	144
Dividends received	312	86
Gain on investments in partnership	—	25
Expired points gain	16	9
Gain on deposit settlement	68	90
Other	258	406
Total Non-Operating Revenue	778	763
Non-Operating Expenses		
Interest paid	310	190
Commission paid	173	82
Currency translation loss	1,581	148
Equity method investment loss	829	877
Loss on investments in partnership	15	—
Other	520	237
Total Non-Operating Expenses	3,430	1,535
Ordinary Profit	19,135	24,506
Extraordinary Profit		
Reversal of financial instruments transaction liability reserve	316	355
Gain on reversal of loss on cryptocurrency mining business restructuring	—	871
Gain on change in equity	—	481
Other	858	224
Total Extraordinary Profit	1,174	1,933
Extraordinary Loss		
Loss on valuation of investment securities	136	619
Impairment loss	1,385	2,476
Loss on cryptocurrency mining business restructuring	35,385	—
Other	377	723
Total Extraordinary Loss	37,285	3,819
Net Profit or Loss Before Adjustment for Tax etc. (- represents loss)	-16,975	22,621
Corporate, Municipal and Enterprise Taxes	-1,861	8,006
Corporate Tax etc. Adjustment	189	-1,752
Total Corporate Taxes etc.	-1,672	6,253
Net Profit or Loss (- represents loss)	-15,302	16,367
Profit Attributable to Non-Controlling Interests	5,404	8,029
Profit or Loss Attributable to Owners of the Parent (- represents loss)	-20,707	8,337

Consolidated Statement of Comprehensive Income

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2018-12.31.2018)	Current Fiscal Year (01.01.2019-12.31.2019)
Net Profit or Loss (- represents loss)	-15,302	16,367
Other Comprehensive Income		
Other securities valuation differences	1,994	346
Deferred hedging profit/loss	0	6
Foreign currency translation adjustments	680	296
Share of other comprehensive income of affiliates accounted for using equity method	101	-329
Total other comprehensive income	2,777	319
Comprehensive Income	-12,525	16,686
(Breakdown)		
Comprehensive income attributable to Owners of the Parent	-19,544	8,547
Comprehensive income attributable to Non- controlling Interests	7,018	8,139

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

Previous Fiscal Year (01.01.2018 – 12.31.2018)

(Unit: ¥millions)

	Shareholders' Equity				
	Capital	Capital Surplus	Earned Surplus	Treasury Stock	Total Shareholders' Equity
Beginning balance	5,000	—	38,113	-23	43,089
Changes during the year					
Dividends			-2,727		-2,727
Loss attributable to owners of the parent			-20,707		-20,707
Disposition of treasury stock		-3		15	11
Changes in shareholders' interests due to transactions with non-controlling interests		30,984			30,984
Changes in items other than shareholders' equity during the year (net)					—
Total changes during the year	—	30,981	-23,434	15	7,561
Ending balance	5,000	30,981	14,678	-7	50,651

(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	284	—	323	608	73	30,582	74,354
Changes during the year							
Dividends							-2,727
Loss attributable to owners of the parent							-20,707
Disposition of treasury stock							11
Changes in shareholders' interests due to transactions with non-controlling interests							30,984
Changes in items other than shareholders' equity during the year (net)	504	0	657	1,162	4	13,338	14,505
Total changes during the year	504	0	657	1,162	4	13,338	22,067
Ending balance	789	0	981	1,771	77	43,920	96,421

Current 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
Increase in earned surplus due to increases in consolidated subsidiaries			1		1
Changes in shareholders' 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
Increase in earned surplus due to increases in consolidated subsidiaries							1
Changes in shareholders' 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

## (4) Consolidated Statement of Cash Flows

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2018-12.31.2018)	Current Fiscal Year (01.01.2019-12.31.2019)
<b>Cash Flow from Operating Activities</b>		
Net profit or loss before adjustment for tax etc. (- represents loss)	-16,975	22,621
Depreciation expenses	8,369	6,888
Impairment loss	1,385	2,476
Amortization of goodwill	584	364
Gain or loss on change in equity (- represents gain)	-	-481
Interest and dividends received	-436	-231
Interest paid	310	190
Equity method investment gain or loss (- represents gain)	829	877
Gain or loss on valuation of investment securities (- represents gain)	136	619
Gain or loss on sale of investment securities (- represents gain)	-739	-57
Gain or loss on sale of stock in subsidiaries and affiliates (- represents gain)	75	-
Insurance Income	-33	-
Information security measures expense	48	-
Loss on cryptocurrency mining business restructuring	35,385	-
Gain on reversal of loss on cryptocurrency mining business restructuring	-	-871
Change in provision for doubtful debts (- represents decrease)	3,276	439
Change in financial instruments transaction liability reserve (- represents decrease)	-316	-355
Change in provision for bonuses (- represents decrease)	1,364	-628
Change in trade receivables (- represents increase)	-2,808	590
Change in trade payables (- represents decrease)	-4,608	-14,433
Change in other payables (- represents decrease)	10,285	301
Change in deposits received (- represents decrease)	8,419	20,494
Change in securities segment deposits (- represents increase)	17,151	-38,340
Change in securities segment guarantee deposits (- represents increase)	-10,583	2,526
Change in securities segment margin variation paid and received	-12,093	268
Changes in securities segment deposits and guarantees received (- represents decrease)	2,934	38,167
Changes in securities segment margin transaction assets and liabilities	8,638	-6,193
Changes in securities segment debt secured by securities (- represents decrease)	-10,068	2,135
Changes in securities segment loan secured by securities (- represents increase)	-7,558	-1,973
Other	-12,100	-12,315
Sub total	20,875	23,078
Interest and dividends received	453	204
Interest paid	-679	-781
Insurance income received	33	-
Refund of deposit money	-	3,000
Payment of deposit money	-	-3,090
Information security measures expense paid	-48	-
Corporate tax etc. paid	-7,508	-14,908
Cash Flow from Operating Activities	13,127	7,502

(Unit: ¥millions)

	Previous Fiscal Year (01.01.2018-12.31.2018)	Current Fiscal Year (01.01.2019-12.31.2019)
<b>Cash Flow from Investing Activities</b>		
Placement of fixed term deposit	-206	-247
Withdrawal of fixed term deposit	906	144
Acquisition of tangible fixed assets	-24,464	-7,122
Acquisition of intangible fixed assets	-4,408	-4,052
Acquisition of investment securities	-465	-3,003
Proceeds from sale of investment securities	774	130
Origination of loans receivable	-1,810	-88
Payment of deposit money	-278	-5,918
Acquisition of subsidiary stock resulting in change in scope of consolidation	-69	-1,771
Other	123	312
<b>Cash Flow from Investing Activities</b>	<b>-29,899</b>	<b>-21,617</b>
<b>Cash Flow from Financing Activities</b>		
Net changes in short term debts (- represents decrease)	-13,701	42,403
Proceeds from new long term debt	17,190	7,363
Repayment of long term debt	-25,804	-6,035
Acquisition of treasury stock	—	-3,110
Proceeds from issuance of convertible bonds with equity warrants	17,510	—
Expenditure on issuance of convertible bonds with equity warrants	-72	—
Gain on sale and leasebacks	980	—
Repayment of installment and lease obligations	-1,787	-2,181
Payment from investment partners	1,635	1,700
Repayment to investment partners	-1,129	-1,126
Acquisition of treasury stock in subsidiaries	-1,062	-2,040
Payment from non-controlling interests	130	62
Payment of dividends	-2,730	-3,545
Payment of dividends to non-controlling interests	-2,206	-3,242
Proceeds from sale of subsidiary stock without change in scope of consolidation	54,961	—
Other	45	76
<b>Cash Flow from Financing Activities</b>	<b>43,960</b>	<b>30,323</b>
<b>Currency Translation Adjustment on Cash and Equivalents</b>	<b>-1,354</b>	<b>-145</b>
<b>Change in Cash and Equivalents (- represents decrease)</b>	<b>25,832</b>	<b>16,063</b>
<b>Balance of Cash and Equivalents at Beginning of Year</b>	<b>117,817</b>	<b>143,650</b>
<b>Increase in Cash and Equivalents due to New Consolidation</b>	<b>—</b>	<b>1</b>
<b>Balance of Cash and Equivalents at End of Year</b>	<b>143,650</b>	<b>159,715</b>

(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: 113 (including 5 partnerships)

Names of significant consolidated subsidiaries

GMO AD Partners, Inc.  
GMO CLOUD, KK.  
GMO Payment Gateway, Inc.  
GMO Pepabo, Inc.  
GMO Financial Holdings, Inc.  
GMO TECH, Inc.  
GMO Research, Inc.  
GMO Media, Inc.

The following companies were added to the consolidation during the current fiscal year for the following reasons: shares of TownWiFi, Inc. (the company name was changed to GMO TownWiFi, Inc. on January 15, 2020) and one other company were newly acquired, and GMO Z.com Investment Pte. Ltd. and four other companies were newly established. GMO Venture Partners Investment Limited Partnership and two other companies were excluded from the consolidation during the current fiscal year as they completed their respective liquidation proceedings.

(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 3 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 cash flow statement

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, Paragraph 3, Item 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

Consolidated tax payment system is applied.

(Changes in presentation method)

(Changes following the application of “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

Following the application of “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018), etc. effective January 1, 2019, deferred tax assets are presented in Investments and other assets and deferred tax liabilities are presented in Fixed liabilities.

As a result, “Deferred tax assets” in “Current assets” on the consolidated balance sheet as of December 31, 2018 decreased by ¥3,933 million and “Deferred tax assets” in “Investments and other assets” increased by ¥3,761 million. Similarly, “Other” in “Current liabilities” decreased by ¥32 million and “Deferred tax liabilities” in “Fixed liabilities” decreased by ¥139 million.

Deferred tax assets and liabilities related to income taxes levied on the same taxable entities are offset, resulting in a decrease in total assets of ¥172 million compared to the balance before the change.

(Consolidated Statement of Income)

“Gain on deposit settlement” included in “Other” in “Non-Operating Revenue” for the year ended December 31, 2018 is presented separately for the year ended December 31, 2019 as it became material. The consolidated financial statements for the year ended December 31, 2018 were reclassified to reflect this change in presentation.

As a result, ¥68 million included in “Other” in “Non-Operating Revenue” for the year ended December 31, 2018 is reclassified to “Gain on deposit settlement.”

“Gain on sale of investment securities” was presented separately in “Extraordinary Profit” for the year ended December 31, 2018, but it is included in “Other” for the year ended December 31, 2019 as it became immaterial. The consolidated financial statements for the year ended December 31, 2018 were reclassified to reflect this change in presentation.

As a result, ¥739 million of “Gain on sale of investment securities” presented in “Extraordinary Profit” in the consolidated statement of income for the year ended December 31, 2018 is reclassified to “Other.”

“Loss on valuation of investment securities” included in “Other” in “Extraordinary Loss” for the year ended December 31, 2018 is presented separately for the year ended December 31, 2019 as it became material. The consolidated financial statements for the year ended December 31, 2018 were reclassified to reflect these changes in presentation.

As a result, ¥136 million included in “Other” in “Extraordinary Loss” for the year ended December 31, 2018 is reclassified to “Loss on valuation of investment securities.”

(Consolidated Statement of Cash Flows)

“Gain or loss on valuation of investment securities (- represents gain)” included in “Other” in “Cash Flow from Operating Activities” for the year ended December 31, 2018 is presented separately for the year ended December 31, 2019 as it became material. The consolidated financial statements for the year ended December 31, 2018 were reclassified to reflect this change in presentation.

As a result, ¥136 million included in “Other” in “Cash Flow from Operating Activities” in the consolidated statement of cash flows for the year ended December 31, 2018 is reclassified to “Gain or loss on valuation of investment securities (- represents gain).”

“Payment of deposit money” included in “Other” in “Cash Flow from Investing Activities” for the year ended December 31, 2018 is presented separately for the year ended December 31, 2019 as it became material. The consolidated financial statements for the year ended December 31, 2018 were reclassified to reflect this change in presentation.

As a result, ¥-278 million included in “Other” in “Cash Flow from Investing Activities” in the consolidated statement of cash flows for the year ended December 31, 2018 is reclassified to “Payment of deposit money.”

“Income accrued on the sale of subsidiary stock resulting in change in scope of consolidation” was presented separately in “Cash Flow from Investing Activities” for the year ended December 31, 2018, but it is included in “Other” for the year ended December 31, 2019 as it became immaterial. The consolidated financial statements for the year ended December 31, 2018 were reclassified to reflect this change in presentation.

As a result, ¥0 million of “Income accrued on the sale of subsidiary stock resulting in change in scope of consolidation” presented in “Cash Flow from Investing Activities” in the consolidated statement of cash flows for the year ended December 31, 2018 is reclassified to “Other.”

“Income from disposal of treasury stock in subsidiary” was presented separately in “Cash Flow from Financing Activities” for the year ended December 31, 2018, but it is included in “Other” for the year ended December 31, 2019 as it became immaterial. The consolidated financial statements for the year ended December 31, 2018 were reclassified to reflect this change in presentation.

As a result, ¥23 million of “Income from disposal of treasury stock in subsidiary” presented in “Cash Flow from Financing Activities” in the consolidated statement of cash flows for the year ended December 31, 2018 is reclassified to “Other.”

(Segment information, etc.)

#### Segment information

### 1. Overview of 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, Cryptocurrency, 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, and payment. The Online Advertising & Media segment provides marketing solutions for customers with online businesses, and includes online advertising, Internet media and Internet research sub-segments. The Internet Finance segment operates online securities transaction service, foreign exchange margin transaction service and cryptocurrency trading service. The Cryptocurrency segment engages in cryptocurrency exchange and mining business. The Incubation segment invests primarily in unlisted Internet related businesses.

### 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 (01.01.2018 – 12.31.2018)

(Unit: ¥millions)

	Reportable segment						Other (*1)	Adjustment (*2)	Total (*3)
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Crypto- currency	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	100,139	42,382	30,745	8,216	2,313	183,797	1,380	—	185,177
Inter-segment sales and transfers	669	4,413	-27	30	—	5,086	147	-5,233	—
Total	100,808	46,795	30,718	8,246	2,313	188,883	1,527	-5,233	185,177
Segment profit/loss (-represents loss)	11,442	763	10,758	-1,362	1,221	22,823	-1,106	70	21,787
Other items									
Depreciation	4,248	470	857	2,629	1	8,206	162	—	8,369

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

2. Segment profit adjustment (¥70 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 (01.01.2019 – 12.31.2019)

(Unit: ¥millions)

	Reportable segment						Other (*1)	Adjustment (*2)	Total (*3)
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Crypto- currency	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 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.

(Related Information)

Previous Fiscal Year (01.01.2018 – 12.31.2018)

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	U.S.	Other	Total
9,384	80	776	10,240

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 (01.01.2019 – 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	U.S.	Other	Total
13,939	1,894	285	16,118

(Change in presentation)

Tangible fixed assets in "U.S." included in "Other" for the year ended December 31, 2018 are presented separately for the year ended December 31, 2019 as the balance exceeds 10% of Tangible Fixed Assets on the consolidated balance sheet. The disclosure for the year ended December 31, 2018 was reclassified 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 (01.01.2018 – 12.31.2018)

(Unit: ¥millions)

	Reportable segment						Other (Note 2)	Corporate/ elimination	Total
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Crypto- currency	Incubation	Total			
Impairment loss (Note 1)	1,275	5	—	10,098	—	11,379	104	—	11,484

(Notes) 1. For the year ended December 31, 2018, Impairment loss of ¥10,098 million is included in Loss on cryptocurrency mining business restructuring in Extraordinary Loss.

2. "Other" relates to Mobile entertainment and Culture incubation business, etc.

Current Fiscal Year (01.01.2019 – 12.31.2019)

(Unit: ¥millions)

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

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

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

Previous Fiscal Year (01.01.2018 – 12.31.2018)

(Unit: ¥millions)

	Reportable segment						Other (Note)	Corporate/ elimination	Total
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Cryptocurrency	Incubation	Total			
Amortization during the year	229	292	—	—	—	522	62	—	584
Balance at end of year	1,565	92	—	—	—	1,658	184	—	1,843

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

Current Fiscal Year (01.01.2019 – 12.31.2019)

(Unit: ¥millions)

	Reportable segment						Other (Note)	Corporate/ elimination	Total
	Internet Infrastructure	Online Advertising & Media	Internet Finance	Cryptocurrency	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.

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

Not applicable

(Per share information)

Item	Previous Consolidated Fiscal Year (01.01.2018– 12.31.2018)	Current Consolidated Fiscal Year (01.01.2019 – 12.31.2019)
Net assets per share	455.48	474.95
Net profit or loss per share (- represents Loss)	-179.92	73.16
Net profit per share (diluted)	—	72.08

(Notes) 1. Diluted net profit per share for the year ended December 31, 2018 is omitted as net loss was recorded.

2. Calculation of net profit/loss per share and net profit per share (diluted) is based on the following:

Item	Previous Consolidated Fiscal Year (01.01.2018– 12.31.2018)	Current Consolidated Fiscal Year (01.01.2019 – 12.31.2019)
Net profit or loss per share (- represents Loss)		
Profit or loss attributable to owners of the parent (¥millions) (- represents loss)	-20,707	8,337
Amount not attributable to common shareholders (¥millions)	—	—
Net profit or loss attributable to owners of the parent related to common stock (¥millions) (- represents loss)	-20,707	8,337
Average number of common shares outstanding during the period	115,096,887	114,274,060
Average number of treasury stock during the period	-8,731	-311,019
Average number of shares during the period	115,088,156	113,963,041
Net profit per share (diluted)		
Net profit adjustment attributable to owners of the parent (¥millions)	—	-122
(including adjustment for dilutive shares in consolidated subsidiaries) (¥millions)	—	(-122)
Increase in no. of common 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: 440,300 shares ii. GMO Financial Holdings, Inc. Equity Warrants 2nd Round Common stock: 2,415,000 shares iii. GMO TECH, Inc. Equity Warrants 1st Round Common stock: 9,940 shares iv. GMO Epsilon, Inc. 2010 Stock Options Common stock: 140 shares	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: 132 shares v. GMO Media, Inc. Equity Warrants 1st Round Common stock: 97,900 shares



(Significant Subsequent Events)

(Acquisition of Treasury Stock)

At the Board of Directors meeting convened on February 12, 2020, it was resolved to acquire treasury stock in accordance with the Company's Articles of Incorporation pursuant to Article 459, Paragraph 1 of the Japanese Companies Act. 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: 9,000,000 shares (maximum) (7.95% of outstanding shares excluding treasury stock)
- (4) Total cost of share acquisition: JPY 15,000 million (maximum)
- (5) Acquisition period: From February 13, 2020 to February 12, 2021
- (6) Acquisition method: (a) Purchase through the Off-Auction Own Share Repurchase Trading System (ToSNeT-3)  
(b) Market purchase at the Tokyo Stock Exchange