

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

November 12, 2019

Name of Listed Company: GMO Internet, Inc.

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

Representative: Masatoshi Kumagai, Group CEO and Founder

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

Date of Quarterly Report Release: November 14, 2019 Start Date of Dividend Payout: December 16, 2019

Supplementary documents available pertaining to quarterly financial results: Yes

Quarter results presentation: Yes (live stream only)

(all amounts rounded down to the nearest million yen)

### 1. Consolidated Third Quarter Financial Results in the Year Ending December 2019 (01.01.2019- 09.30.2019)

#### (1) Consolidated Operating Results

(percentages 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, 2019	147,013	7.2	19,930	15.1	19,291	16.8	6,615	7.6
September 30, 2018	137,164	22.0	17,318	44.4	16,509	40.3	6,149	62.5

(Note) Comprehensive Income September 30, 2019: ¥13,144 million (-11.6%), September 30, 2018: ¥14,866 million (129.9%)

	Net Profit per Share	Net Profit per Share (Diluted)
Nine months ended	¥	¥
September 30, 2019	57.92	57.16
September 30, 2018	53.42	52.67

#### (2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio
As of	¥ millions	¥ millions	%
September 30, 2019	813,122	101,749	6.5
December 31, 2018	752,454	96,421	7.0

(Reference) Shareholders' Equity September 30, 2019: ¥52,509 million December 31, 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.

### 2. Dividends

	Dividends per Share				
	End of Q1	End of Q2	End of Q3	End of Term	Total
	¥	¥	¥	¥	¥
Year Ended 12/2018	6.00	6.20	5.50	11.80	29.50
Year Ending 12/2019	6.00	6.00	7.20		
Year Ending 12/2019 (forecast)				—	—

### 3. Consolidated Results Forecast for the Year Ending December 31, 2019 (01.01.2019 – 12.31.2019)

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. GMO Financial Holdings Co., Ltd., our subsidiary, discloses sales indicators, such as foreign exchange margin transaction volume, stock brokerage trading value and the number of customer account, and operating revenue on a monthly basis.

\*Notes

(1) Changes to significant subsidiaries during the current nine-month period: Yes

(Transfer of a specified subsidiary resulting in change in scope of consolidation)

Excluded: 1 company (GMO Venture Partners Investment Limited Partnership)

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

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

1. Changes resulting from revisions to accounting standard, etc.: None

2. Changes other than those specified above: None

3. Changes in accounting estimates: None

4. Restatements: None

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

(Unit: shares)

1. Outstanding shares at end of period (including treasury stock)

Q3 FYE 12/2019	113,242,987	FYE 12/2018	115,096,887
Q3 FYE 12/2019	1,880	FYE 12/2018	4,004
Q3 FYE 12/2019	114,206,329	Q3 FYE 12/2018	115,087,944

2. Treasury stock at end of period

3. Average number of shares during the period

\*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 12, 2019, we plan to stream a financial results briefing live. The presentation and explanation (voice) along with explanatory materials used on the day will be posted on our company website (<https://ir.gmo.jp/en/>) promptly after the meeting.

## Contents

1. Qualitative Information Related to Financial Results .....	2
(1) Consolidated operating results .....	2
(2) Consolidated financial condition .....	9
(3) Consolidated results forecast and other forward-looking information .....	9
2. Summary of Information Related to Notes.....	10
(1) Changes to significant subsidiaries during the current nine-month period.....	10
(2) Special accounting treatments used in preparation of financial statements .....	10
(3) Changes in accounting policy, changes in accounting estimates, restatements .....	10
3. Quarterly Consolidated Financial Statements and Major Notes .....	11
(1) Quarterly consolidated balance sheet .....	11
(2) Quarterly consolidated statement of income and comprehensive income .....	13
(3) Notes regarding the quarterly consolidated financial statements.....	15
Notes regarding the going concern assumption .....	15
Notes regarding changes impacting shareholders' equity.....	15
Segment information.....	15
Additional information .....	16

## 1. Qualitative Information related to Financial Results

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) Consolidated Operating Results

#### Overview of Financial Results for the Nine Months Ended September 30, 2019

(Unit: ¥millions)

	Previous Q3	Current Q3	Change	% Change
Net Sales	137,164	147,013	9,849	7.2%
Operating Profit	17,318	19,930	2,611	15.1%
Ordinary Profit	16,509	19,291	2,781	16.8%
Profit Attributable to Owners of the Parent	6,149	6,615	466	7.6%

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. While sales in advertising agency business were strong, 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 early this year and also due to a decline in volatility, but maintains 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 nine months ended September 30, 2019, the Group recorded net sales of ¥147,013 million (up 7.2% year-on-year), operating profit of ¥19,930 million (up 15.1% year-on-year), ordinary profit of ¥19,291 million (up 16.8% year-on-year) and net profit attributable to owners of the parent of ¥6,615 million (up 7.6% year-on-year).

Net Sales and Operating Profit by Segment for the Nine Months Ended September 30, 2019

(Unit: ¥millions)

	Previous Q3	Current Q3	Change	% Change
Internet Infrastructure				
Net Sales	73,679	84,469	10,789	14.6%
Operating Profit	8,284	10,961	2,676	32.3%
Online Advertising & Media				
Net Sales	34,746	34,965	219	0.6%
Operating Profit	436	406	-29	-6.8%
Internet Finance				
Net Sales	23,206	21,829	-1,376	-5.9%
Operating Profit	8,495	6,704	-1,790	-21.1%
Cryptocurrency				
Net Sales	5,912	4,975	-937	-15.9%
Operating Profit	-375	872	1,248	—
Incubation				
Net Sales	2,306	2,959	652	28.3%
Operating Profit	1,438	2,045	607	42.2%
Other				
Net Sales	1,132	1,605	472	41.7%
Operating Profit	-1,010	-1,116	-106	—
Adjustment				
Net Sales	-3,818	-3,789	28	—
Operating Profit	50	56	5	—
Total				
Net Sales	137,164	147,013	9,849	7.2%
Operating Profit	17,318	19,930	2,611	15.1%

◆ Overview of Financial Results for the Three Months ended September 30, 2019

(Unit: ¥millions)

	Previous Q3	Current Q3	Change	% Change
Net Sales	45,894	50,975	5,081	11.1%
Operating Profit	5,535	8,972	3,437	62.1%
Ordinary Profit	5,172	8,638	3,465	67.0%
Profit attributable to Owners of the Parent	1,917	2,580	663	34.6%

For the three months ended September 30, 2019, the Internet Infrastructure segment showed strong growth with an expanded customer base, and the Internet Finance segment also showed strong growth due to an increase in FX transaction volume. The Incubation segment achieved a record high profitability due to gain on sale of shareholdings in relation to the initial public offering of the investee.

Net Sales and Operating Profit by Segment for the Three Months ended September 30, 2019

(Unit: ¥millions)

	Previous Q3	Current Q3	Change	% Change
Internet Infrastructure				
Net Sales	25,465	28,544	3,079	12.1%
Operating Profit	2,930	3,762	832	28.4%
Online Advertising & Media				
Net Sales	11,466	11,315	-151	-1.3%
Operating Profit	59	64	5	9.3%
Internet Finance				
Net Sales	7,493	7,958	464	6.2%
Operating Profit	2,585	2,919	333	12.9%
Cryptocurrency				
Net Sales	2,619	1,572	-1,046	-40.0%
Operating Profit	104	424	320	307.5%
Incubation				
Net Sales	107	2,483	2,375	—
Operating Profit	-71	1,919	1,990	—
Other				
Net Sales	142	283	141	99.1%
Operating Profit	-91	-135	-43	—
Adjustment				
Net Sales	-1,400	-1,180	219	—
Operating Profit	18	17	-1	—
Total				
Net Sales	45,894	50,975	5,081	11.1%
Operating Profit	5,535	8,972	3,437	62.1%

Financial results by segment for the three months ended September 30, 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 has continued to actively grow customer base with a low-pricing strategy. The number of domain registration and renewals during the three months ended September 30, 2019 was 1.35 million (up 1.8% year-on-year), and total number of domains under management as of September 30, 2019 was 6.86 million (up 10.6% year-on-year). Net sales were ¥2,204 million (up 4.9% 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 September 30, 2019 was 867 thousand (up 1.8% year-on-year) and net sales were ¥3,606 million (down 0.2% 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 September 30, 2019

decreased 4.0% year-on-year to 70 thousand, but spending per customer increased thanks to upselling strategies. As for *minne*, total transaction volume was ¥2.77 billion (down 4.3% year-on-year) after a shift from a large-scale promotion aiming at gaining recognition to efficient operation. As a result, net sales were ¥2,984 million (up 13.9% year-on-year).

#### iv. Security

As the global expansion of security brand GlobalSign progressed, 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 three months ended September 30, 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 ¥1,543 million (up 2.6% year-on-year), with overseas sales ratio of approximately 60%.

#### v. Payment

Payment services are mainly operated by GMO Payment Gateway and offer comprehensive payment-related service and finance-related services. The settlement agency service is working on service expansion in online/recurring payments and face-to-face payments. During the three months ended September 30, 2019, in online/recurring payments service, the number of large merchants increased steadily as the EC market expands steadily partly due to the amendment of the Installment Sales Act. In finance-related services, "GMO Payment After Delivery," early payment service and remittance service showed strong growth.

As a result of these efforts, the number of transactions and the transaction volume increased steadily, and net sales increased to ¥8,418 million (up 15.2% 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 September 30, 2019 significantly increased to 1.72 million (up 31.9% year-on-year) and net sales also largely increased to ¥8,603 million (up 24.7% year-on-year).

As a result, overall net sales of the Internet Infrastructure segment amounted to ¥28,544 million (up 12.1% year-on-year). Operating profit increased significantly to ¥3,762 million (up 28.4% 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. Sales of in-house ad network products, such as *AkaNe*, an ad network for smartphones, and *ReeMo*, an ad distribution platform (DSP) specialized in collecting users, showed a sign of recovery as the impact of the tightened posting criteria aiming at quality improvement settled. As a result, net sales amounted to ¥7,779 million (down 1.5% year-on-year).

#### ii. Internet Media

This sub-segment provides advertising space within our own smartphone and PC content and marketing support services. 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 in the first quarter of FY2019, net sales were ¥2,729 million (down 4.0% year-on-year).

Overall, the Online Advertising & Media segment recorded net sales of ¥11,315 million (down 1.3% year-on-year), and operating profit of ¥64 million (up 9.3% year-on-year). Focus in this segment remains on developing 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, Inc., a consolidated subsidiary of GMO Financial Holdings. The customer base has

continued to increase with the number of OTC FX accounts increasing to 835 thousand (up 12.2% year-on-year) and the number of Securities accounts increasing to 407 thousand (up 13.7% year-on-year). The OTC FX trading, which accounts for more than half of net sales and profit of the segment, achieved a record high profitability through improvement measures such as big data analysis, and the transaction volume also increased due to an increase in volatility in the foreign exchange market.

Overall, the Internet Finance segment recorded net sales of ¥7,958 million (up 6.2% year-on-year) and operating profit of ¥2,919 million (up 12.9% 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 operates 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 ¥487 million (down 61.0% 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 289 thousand (up 47.0% 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 ¥1,085 million (down 20.8% year-on-year).

Overall, the Cryptocurrency segment recorded net sales of ¥1,572 million (down 40.0% year-on-year) and recorded operating profit of ¥424 million (up 307.5% year-on-year) as the cryptocurrency mining business recorded profit as a result of cost reduction through business restructuring.

#### 5) Incubation Segment

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 ¥2,483 million and operating profit was ¥1,919 million due to a sale of its shareholdings in relation to the IPO of the investee.

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

(Unit: ¥millions)

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Net Sales	45,894	48,013	46,863	49,174	50,975
Operating Profit	5,535	4,468	5,000	5,957	8,972
Ordinary Profit	5,172	2,626	4,886	5,766	8,638
Profit Attributable to Owners of the Parent	1,917	-26,856	2,024	2,010	2,580
Total Assets	779,900	752,454	771,614	774,316	813,122
Shareholders' Equity	48,550	52,422	53,012	50,577	52,509



(Reference2)

Table: Quarterly Results by Segment

I Net Sales by Segment		(Unit: ¥millions)				
	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	
Internet Infrastructure						
Provider (ISP)	6,902	7,333	7,744	8,429	8,603	
Domain	2,100	2,132	2,234	2,380	2,204	
Hosting & Cloud	3,614	3,604	3,549	3,610	3,606	
Ecommerce Solutions	2,620	3,019	3,038	2,816	2,984	
Security	1,503	1,573	1,580	1,563	1,543	
Payment	7,304	8,182	7,838	8,027	8,418	
Other	1,418	1,283	1,504	1,607	1,183	
Total	25,465	27,129	27,489	28,434	28,544	
Online Advertising & Media						
Online Advertising	7,895	8,282	8,341	8,064	7,779	
Internet Media	2,842	2,832	2,934	2,746	2,729	
Internet Research & Other	728	934	800	762	805	
Total	11,466	12,049	12,076	11,573	11,315	
Internet Finance						
Total	7,493	7,512	6,397	7,474	7,958	
Cryptocurrency						
Cryptocurrency exchange	1,369	1,053	507	1,494	1,085	
Cryptocurrency mining	1,249	1,280	786	613	487	
Total	2,619	2,334	1,294	2,108	1,572	
Incubation						
Total	107	7	328	147	2,483	
Sub total	47,152	49,033	47,586	49,738	51,873	
Other	142	394	414	908	283	
Adjustment	-1,400	-1,415	-1,137	-1,471	-1,180	
Net Sales	45,894	48,013	46,863	49,174	50,975	

## II Operating Profit by Segment

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Internet Infrastructure	2,930	3,157	3,615	3,583	3,762
Online Advertising & Media	59	326	246	95	64
Internet Finance	2,585	2,263	1,469	2,315	2,919
Cryptocurrency	104	-986	-229	678	424
Incubation	-71	-216	114	11	1,919
Sub total	5,608	4,545	5,216	6,683	9,090
Other	-91	-96	-193	-788	-135
Adjustment	18	19	-23	61	17
Operating Profit	5,535	4,468	5,000	5,957	8,972

(Reference3)

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 the 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 services “JUGEM” and ad distribution to own media</li> <li>• SEM Media: Sales of SEO.</li> </ul>
	Internet Research & 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) Consolidated Financial Condition  
Assets, Liabilities and Shareholders' Equity

Assets

As of September 30, 2019, total assets increased ¥60,667 million (8.1%) from December 31, 2018 to ¥813,122 million. Major factors included an increase of ¥35,769 million (7.8%) 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 ¥11,785 million (16.7%) in other current assets due to an increase in advance payments, an increase of ¥5,960 million (42.9%) in cryptocurrency received, an increase of ¥3,264 million (2.3%) in cash and deposits, and an increase of ¥2,962 million (28.9%) in tangible fixed assets.

Liabilities

As of September 30, 2019, liabilities increased ¥55,339 million (8.4%) from December 31, 2018 to ¥711,372 million. Major factors included an increase of ¥42,962 million (10.9%) 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 ¥23,708 million (26.2%) in debt, a decrease of ¥9,218 million (25.4%) in amount payable, an increase of ¥5,960 million (42.9%) in cryptocurrency received, and a decrease of ¥4,180 million (57.7%) in accrued corporate tax, etc.

Net Assets

As of September 30, 2019, net assets increased ¥5,327 million (5.5%) from December 31, 2018 to ¥101,749 million. Major factors included an increase of ¥3,887 million (26.5%) in earnings surplus (consisting mainly of an increase from recording profit attributable to owners of the parent totaling ¥6,615 million and a decrease from dividend payments of ¥2,728 million), a decrease of ¥3,602 million (11.6%) in capital surplus as a result of retirement of treasury stock, and an increase of ¥5,234 million (11.9%) in non-controlling interests.

(3) Consolidated Results Forecast and Other Forward-Looking Information

For the fiscal year ending December 31, 2019, the Group expects an increase both in net sales and operating profit, mainly in the Internet Infrastructure segment. Meanwhile, there are certain factors that cannot be reasonably predicted at this point, including: (1) Fluctuation of cryptocurrency price and movement of global hash rates in the Cryptocurrency segment, (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, 2019.

## 2. Summary of Information Related to Notes

### (1) Changes to significant subsidiaries in the current nine-month period

During the three months ended June 30, 2019, our consolidated subsidiary GMO Venture Partners Investment Limited Partnership was excluded from the scope of consolidation as its liquidation proceedings were completed on May 30, 2019.

### (2) Special accounting treatments used in preparation of the quarterly consolidated financial statements

None

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

None

### 3. Quarterly Consolidated Financial Statements and Major Notes

#### (1) Quarterly consolidated balance sheet

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2018)	3rd Quarter Current Fiscal Year (As of September 30, 2019)
<b>Assets</b>		
<b>Current Assets</b>		
Cash and deposits	144,096	147,361
Trade notes and accounts receivable	20,725	20,598
Operational investment securities	7,006	8,075
Cryptocurrency received	13,903	19,864
Securities segment deposits	269,696	290,790
Securities segment margin transaction assets	81,551	92,159
Securities segment loan secured by securities	7,558	9,393
Securities segment short term guarantee deposits	57,579	55,006
Securities segment variation margin paid	40,282	45,088
Other	70,702	82,488
Provision for doubtful debts	-2,570	-2,669
<b>Total Current Assets</b>	<b>710,532</b>	<b>768,155</b>
<b>Fixed Assets</b>		
Tangible fixed assets	10,240	13,202
<b>Intangible fixed assets</b>		
Goodwill	1,843	1,097
Software	5,818	6,592
Other	8,451	7,870
<b>Total intangible fixed assets</b>	<b>16,113</b>	<b>15,560</b>
<b>Investments and other assets</b>		
Investment securities	7,617	7,905
Deferred tax asset	4,971	4,831
Other	7,168	7,633
Provision for doubtful debts	-4,189	-4,167
<b>Total investments and other assets</b>	<b>15,567</b>	<b>16,202</b>
<b>Total Fixed Assets</b>	<b>41,922</b>	<b>44,966</b>
<b>Total Assets</b>	<b>752,454</b>	<b>813,122</b>

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2018)	3rd Quarter Current Fiscal Year (As of September 30, 2019)
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Trade notes and accounts payable	10,833	9,293
Short term debt	80,820	102,408
Amount payable	36,363	27,145
Cryptocurrency received	13,903	19,864
Securities segment deposits received	43,131	45,332
Securities segment margin transaction liability	24,995	38,567
Securities segment guarantees received	309,449	329,061
Securities segment variation margin received	5,589	2,435
Securities segment debt secured by securities	12,714	23,444
Accrued corporate tax, etc.	7,240	3,060
Allowance for bonuses	1,684	1,318
Allowance for bonuses to directors	752	216
Advance payment received	7,644	9,598
Deposits received	55,881	53,931
Other	9,886	10,427
<b>Total Current Liabilities</b>	<b>620,892</b>	<b>676,107</b>
<b>Fixed Liabilities</b>		
Convertible bonds with equity warrants	17,450	17,374
Long term debt	9,522	11,642
Deferred tax liability	274	205
Other	6,306	4,723
<b>Total Fixed Liabilities</b>	<b>33,553</b>	<b>33,944</b>
<b>Statutory Reserve</b>		
Financial instruments transaction liability reserve	1,587	1,320
<b>Total Statutory Reserve</b>	<b>1,587</b>	<b>1,320</b>
<b>Total Liabilities</b>	<b>656,033</b>	<b>711,372</b>
<b>Net Assets</b>		
<b>Shareholders' Equity</b>		
Capital stock	5,000	5,000
Capital surplus	30,981	27,378
Earned surplus	14,678	18,565
Treasury stock	-7	-2
<b>Total Shareholders' Equity</b>	<b>50,651</b>	<b>50,941</b>
<b>Accumulated Other Comprehensive Income</b>		
Other securities valuation differences	789	1,017
Deferred hedging profit/loss	0	5
Foreign currency translation adjustments	981	545
<b>Total Accumulated Other Comprehensive Income</b>	<b>1,771</b>	<b>1,567</b>
Equity Warrants	77	84
Non-controlling Interests	43,920	49,155
<b>Total Net Assets</b>	<b>96,421</b>	<b>101,749</b>
<b>Total Liabilities and Net Assets</b>	<b>752,454</b>	<b>813,122</b>

## (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 Sep, 2018)	3rd Quarter Current Fiscal Year (9 months to Sep, 2019)
Net Sales	137,164	147,013
Cost of Sales	69,201	74,858
Gross Profit on Sales	67,963	72,155
Sales, General & Administrative Expenses	50,645	52,225
Operating Profit	17,318	19,930
Non Operating Revenue		
Dividends received	307	82
Other	336	488
Total Non Operating Revenue	644	570
Non Operating Expenses		
Interest paid	230	118
Commissions paid	131	77
Equity method investment losses	503	667
Foreign exchange loss	277	204
Other	311	141
Total Non Operating Expenses	1,453	1,209
Ordinary Profit	16,509	19,291
Extraordinary Profit		
Gain from reversal of loss on cryptocurrency mining business restructuring	—	862
Gain on sale of investment securities	735	—
Reversal of reserve for securities transaction liability	238	266
Other	119	220
Total Extraordinary Profit	1,093	1,350
Extraordinary Loss		
Loss on evaluation of investment securities	135	507
Impairment loss	242	1,206
Other	135	174
Total Extraordinary Loss	514	1,888
Net Profit before Adjustment for Tax etc.	17,088	18,753
Corporate, Municipal and Enterprise Taxes	6,645	6,059
Corporate Tax etc. Adjustment	-125	-36
Total Corporate Taxes etc.	6,520	6,022
Net Profit	10,568	12,730
Profit attributable to Non-controlling Interests	4,419	6,115
Profit attributable to Owners of the Parent	6,149	6,615

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

(Unit: ¥millions)

	3rd Quarter Previous Fiscal Year (9 months to Sep, 2018)	3rd Quarter Current Fiscal Year (9 months to Sep, 2019)
Net Profit	10,568	12,730
Other Comprehensive Income		
Other securities valuation differences	4,140	887
Deferred hedging profit/loss	6	4
Foreign currency translation adjustments	121	-296
Share of other comprehensive income of entities accounted for using equity method	29	-181
Total other comprehensive income	4,297	413
Comprehensive Income	14,866	13,144
(Breakdown)		
Comprehensive income attributable to owners of the parent	7,542	6,412
Comprehensive income attributable to non-controlling interests	7,324	6,732



(3) Notes regarding the quarterly consolidated financial statements  
Notes regarding the going concern assumption  
None

Notes regarding changes impacting shareholders' equity

Pursuant to the resolution at the Board of Directors meeting held on February 12, 2019, the Company acquired 1,853,900 shares of treasury stock during the period from May 1, 2019 to June 20, 2019 for ¥3,109 million. And pursuant to the resolution at the Board of Directors meeting held on July 16, 2019, the Company retired 1,853,900 shares of treasury stock effective July 23, 2019. As a result, capital surplus and treasury stock decreased by ¥3,109 million, respectively.

As a result of the above, capital surplus and treasury stock as of September 30, 2019 amounted to ¥27,378 million and ¥2 million, respectively.

Segment information

I 3rd Quarter of Previous Fiscal Year (01.01.2018-09.30.2018)

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

(Unit: ¥millions)

	Reportable segment						Other (*i)	Adjustment (*ii)	Consolidated P/L (*iii)
	Internet Infrastructure	Online Ad & Media	Internet Finance	Crypto- currency	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	73,206	31,508	23,248	5,868	2,306	136,139	1,025	–	137,164
Internal transactions	472	3,237	-42	43	–	3,711	106	-3,818	–
Total	73,679	34,746	23,206	5,912	2,306	139,850	1,132	-3,818	137,164
Segment Profit/Loss	8,284	436	8,495	-375	1,438	18,278	-1,010	50	17,318

\*Notes

- "Other" represents mobile entertainment, culture incubation and other businesses not included in reportable segments.
- Segment Profit/Loss adjustment (¥50 million) is an elimination of inter-segment transactions.
- Segment Profit/Loss is based on the Operating Profit line item in the quarterly consolidated statement of income.

2. Data relating to impairment loss on fixed assets or goodwill by reportable segment

Material impairment loss on fixed assets

Impairment loss on fixed assets was recognized in "Internet Infrastructure" segment. The amount of impairment loss was ¥242 million for the nine months ended September 30, 2018.

II 3rd Quarter of Current Fiscal Year (01.01.2019-09.30.2019)

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

(Unit: ¥millions)

	Reportable segment						Other (*i)	Adjustment (*ii)	Consolidated P/L (*iii)
	Internet Infrastructure	Online Ad & Media	Internet Finance	Crypto- currency	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	83,922	31,932	21,771	5,030	2,959	145,616	1,397	–	147,013
Internal transactions	546	3,032	57	-55	–	3,581	208	-3,789	–
Total	84,469	34,965	21,829	4,975	2,959	149,198	1,605	-3,789	147,013
Segment Profit/Loss	10,961	406	6,704	872	2,045	20,990	-1,116	56	19,930

\*Notes

- i. "Other" represents mobile entertainment, culture incubation and other businesses not included in reportable segments.
- ii. Segment Profit/Loss adjustment (¥56 million) is an elimination of inter-segment transactions.
- iii. Segment Profit/Loss is based on the Operating Profit line item in the quarterly consolidated statement of income.

## 2. Data relating to impairment loss on fixed assets or goodwill by reportable segment

### Material impairment loss on fixed assets

Impairment loss on fixed assets was recognized in "Internet Infrastructure," "Online Ad & Media," and "Other" segment. The amount of impairment loss was ¥916 million in "Internet Infrastructure," ¥31 million in "Online Ad & Media," and ¥259 million in "Other" segment for the nine months ended September 30, 2019.

### Additional information

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 deferred tax assets are presented in Investment and other assets and deferred tax liabilities are presented in Fixed liabilities.