

Summary of Consolidated Financial Statements for Fiscal Year 2019 (IFRS)

November 12, 2019

Exchange: First Section of Tokyo Stock Exchange

Name of listed company: GMO Payment Gateway, Inc.

Stock code: 3769

URL: <https://corp.gmo-pg.com/en/>

Representative: Issei Ainoura

President & Chief Executive Officer

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Scheduled date for the holding of the ordinary general shareholders' meeting December 15, 2019

Scheduled date of commencement for dividend payment December 16, 2019

Scheduled submission date of securities report December 16, 2019

Supplemental materials prepared for financial results :Yes

Information meeting arranged related to financial results :Yes (for institutional investors and analysts)

(Amounts rounded down to the nearest one million yen)

1. Consolidated Financial Statements for the Term Ended September 2019 (From October 1, 2018 to September 30, 2019)

(1) Consolidated Financial Statements

(Percentages represent year-on-year % change)

	Revenue		Operating profit		Profit before income taxes		Profit after tax		Profit attributable to owners of parent		Total comprehensive income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY 2019	32,121	21.6	8,301	26.7	8,039	20.0	5,052	19.0	5,267	23.8	4,426	△27.3
FY 2018	26,417	25.5	6,550	65.9	6,700	86.8	4,246	74.8	4,255	75.8	6,085	124.7

	Basic earnings per share	Diluted earnings per share	Ratio of Profit attributable to owners of parent to Total equity	Ratio of Profit before income taxes to Total assets	Operating profit margin
	Yen	Yen	%	%	%
FY 2019	71.61	70.09	20.5	6.3	25.8
FY 2018	57.75	57.46	19.1	6.7	24.8

Reference: Equity in earnings of affiliates: FY2019 △19 Million yen FY2018 △203 Million yen

(Note) On October 1, 2018, the company executed a 2-1 stock split. The values for FY2018 are calculated on the same basis.

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to owners of parent	Total equity attributable to owners of parent to total assets	Total equity attributable to owners of parent per share
	Million yen	Million yen	Million yen	%	Yen
FY 2019	139,990	27,539	26,494	18.9	360.17
FY 2018	116,858	26,020	24,796	21.2	336.65

(Note) On October 1, 2018, the company executed a 2-1 stock split. The values for FY2018 are calculated on the same base.

(3) Consolidated Cash Flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Closing balance of cash and cash equivalents
	Million yen	Million yen	Million yen	Million yen
FY 2019	1,311	858	7,959	52,013
FY 2018	4,701	△8,296	18,067	42,033

2. Dividends

	Full-year dividend					Total dividend amount	Dividend payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	End of Q1	End of Q2	End of Q3	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY 2018	0.00	0.00	0.00	58.00	58.00	2,154	50.2	9.6
FY 2019	0.00	0.00	0.00	36.00	36.00	2,674	50.3	10.3
FY 2020 (forecast)	0.00	0.00	0.00	42.00	42.00		50.6	

(Note) On October 1, 2018, the company executed a 2-1 stock split. The values for FY2018 are calculated on the same base.

3. Consolidated Financial Forecast for the Fiscal Year Ending September 2020
(From October 1, 2019 to September 30, 2020)

(Percentages represent year-on-year change)

	Revenue		Operating profit		Profit before income taxes		Profit after tax		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
2Q of FY2020 (cumulative)	17,116	6.9	4,363	2.5	4,122	Δ0.3	2,597	1.9	2,533	-1.7	34.44
Full Year	36,618	14.0	10,376	25.0	9,867	22.8	6,216	23.0	6,110	16.0	83.06

Notices:

- (1) Changes of important subsidiaries during the period (change of specific subsidiaries that leads to a change in the scope of consolidation): No

Number of new subsidiaries: - (Name:), Number of excluded subsidiaries: - (Name:)

- (2) Changes in the accounting policy / changes in the accounting estimation

[1] Changes in accounting policy required by IFRS.: Yes

[2] Changes in accounting policy other than [1]: No

[3] Changes in accounting estimations: No

- (3) Number of shares issued (common stock)

[1] Number of shares issued at the end of the term FY2019: 74,301,000 FY 2018: 74,301,000
(including treasury stock)

[2] Number of treasury shares at the end of the term FY2019: 5,076 FY 2018: 5,000

[3] Average number of shares during the term FY2019: 73,562,191 FY2018: 73,680,448
(quarterly average)

(Note 1) Number of treasury shares at the end of the term includes the shares attributed to the directors' remuneration board incentive plan (BIP) trust and J-ESOP: 639,400 shares for FY2018 and 734,205 shares for FY2019.)

(Note 2) On October 1, 2018, the company executed a 2-1 stock split. The shares issued at start of the previous term are calculated by assuming the post-split number of shares.

Reference: Summary of Non-consolidated Financial Statements

**1. Non-consolidated Financial Statements for the Term Ended September 2019
(From October 1, 2018 to September 30, 2019)**

(1) Non-consolidated Financial Statements

(Percentages represent year-on-year % change)

	Revenue		Operating profit		Ordinary profit		Net profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY 2019	16,348	15.6	5,867	51.6	6,700	42.7	4,416	11.7
FY 2018	14,139	21.8	3,868	11.5	4,695	14.9	3,952	32.9

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
FY 2019	60.04		57.32	
FY 2018	53.64		52.86	

(Note) On October 1, 2018, the company executed a 2-1 stock split. The values for FY2018 are calculated on the same base.

(2) Non-consolidated Financial Position

	Total assets	Total equity	Equity ratio	Total equity per share
	Million yen	Million yen	%	Yen
FY 2019	97,261	22,409	23.0	304.64
FY 2018	79,929	21,670	27.1	294.21

Reference: Owner's equity FY2019 22,409 Million yen FY2018 21,670 Million yen

Note 1. Non-consolidated financial results are based on J-GAAP standards.

2. The company has been applying "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 on February 16, 2018) from the beginning of the consolidated fiscal year under review. Individual figures for the fiscal year period ended September 30, 2018 have had this accounting standard applied retroactively.

3. On October 1, 2018, the company executed a 2-1 stock split. The total equity per share calculated for FY2018 are calculated on the same basis.

* These financial statements are not subject to the review procedures.

* Notes regarding the appropriate use of financial forecast and other important notes

1. The above forecasts are outlooks based on information currently available, and include various uncertain factors. Actual performance may differ substantially from the forecasts due to changes in business conditions and other factors. For the assumption on which financial forecasts are based and matters to be considered in using financial forecasts, please refer to "(5) Review of consolidated earnings forecasts and other forecasts" under "1. Qualitative Information on Consolidated Financial Statements for the Fiscal Year" on page 11 of the attachment.

2. Results Presentation Meeting for Institutional Investors and Analysts to be held on November 14, 2019. Supporting materials and a video of the presentation will be made available on the company's website after the event.

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1. Qualitative Information on Consolidated Financial Statements for the Fiscal Year

(1) Consolidated operating results

Forward-looking statements in the document are based on the judgement of the Group at the end of the fiscal year under review.

① Consolidated operating results

The Group announces its earnings results for the consolidated fiscal year 2019 (October 1, 2018 to September 30, 2019) as follows.

(Unit: Thousand Yen)

	Previous consolidated fiscal year (From October 1, 2017 To September 30, 2018)	Current consolidated fiscal year (From October 1, 2018 to September 30, 2019)	Rate of change (%)
Revenue	26,417,320	32,121,894	21.6
Operating profit	6,550,904	8,301,220	26.7
Profit before income taxes	6,700,079	8,039,076	20.0
Profit attributable to owners of parent	4,255,069	5,267,465	23.8

a. Revenue

The Group's revenue surged to ¥32,121 mil., up by 21.6% YoY. The Payment Processing Business revenue grew 27.1% YoY thanks to the steady growth of the E-Commerce (hereafter "EC") market and with the expansion of the Group's services to non-EC operators. Our Money Service Business (MSB) revenue grew 19.6% YoY from the strong trends seen in GMO Payment After Delivery transactions, a type of deferred payment service, and the Remittance service. The Payment Enhancement Business revenue grew 8.8% YoY driven by the growth at Macro Kiosk, the Group's consolidated subsidiary that provides a comprehensive service of mobile payment and mobile authentication and notification.

Our revenue breakdown by business model is as follows.

With the adoption of IFRS 15 effective from the start of this consolidated fiscal year 2019, the software development revenue for the payment processing service is recognized as prorated over the life of the service provision period, compared to the previous lump sum method booked at point of delivery inspection. As such, the software development revenue has been reclassified from Initial to Stock. The amount reclassified from Initial to Stock is ¥709 mil. in the cumulative consolidated fiscal year. There is no retroactive reclassification applied as the adjustment of the cumulative effect from the initial application of IFRS 15 is made against Retained Earnings balance at the start of this consolidated fiscal year 2019.

(Unit: Thousand Yen)

Business model	Previous consolidated fiscal year (From October 1, 2017 to September 30, 2018)	Current consolidated fiscal year (From October 1, 2018 to September 30, 2019)	Rate of change (%)
Initial (Initial revenue)	1,501,377	1,409,663	△6.1
Stock (Monthly revenue)	3,445,115	4,916,518	42.7
Fee (Transaction processing revenue)	10,364,887	12,101,091	16.8
Spread (Merchant acquiring service revenue)	11,105,940	13,694,620	23.3
Total	26,417,320	32,121,894	21.6

b. Operating profit

The Group's operating profit reached ¥8,301 mil., up by 26.7% YoY, which was slightly higher than the Group's consolidated fiscal year forecast.

By segment, Payment Processing Business segment profit (operating profit) was ¥10,031 mil., up by 24.4% YoY; Money Service Business segment profit stood at ¥1,972 mil., up by 43.2% YoY; and, Payment Enhancement Business recorded a segment loss (operating loss) of ¥1,151 mil. (previous fiscal year was an operating loss of ¥177 mil.). Note that Payment Enhancement Business segment losses include a one-off loss amount of ¥992 mil from the impairment loss of Macro Kiosk Berhad.

c. Profit before income taxes

Pre-tax profit was ¥8,039 mil. up by 20.0% YoY, from the reasons stated above in a. and b. Note that financial income was ¥48 mil. a decline of ¥367 mil. YoY due mainly to gains from investment partnerships. Financial expense was ¥291 mil., an increase of ¥228 mil YoY due mainly to foreign currency losses. Additionally, equity method investment losses was ¥19 mil., a decline of ¥184 mil. YoY.

② Results by segment

Performance by reportable segment is explained below.

(Unit: Thousand Yen)

Segment	Previous consolidated fiscal year (From October 1, 2017 to September 30, 2018)	Current consolidated fiscal year (From October 1, 2018 to September 30, 2019)	Year on Year (%)
Payment Processing Business			
Revenue	14,801,499	18,811,705	27.1
Operating profit	8,064,804	10,031,752	24.4
Money Service Business			
Revenue	6,254,505	7,478,106	19.6
Operating profit	1,377,684	1,972,558	43.2
Payment Enhancement Business			
Revenue	5,361,315	5,832,082	8.8
Operating profit	△177,971	△1,151,178	—
Adjustments			
Revenue	—	—	—
Operating profit	△2,713,612	△2,551,911	—
Total			
Revenue	26,417,320	32,121,894	21.6
Operating profit	6,550,904	8,301,220	26.7

a. Payment Processing Business

The payment processing business primarily comprises of payment processing services for online payment, recurring payment and, card-present payment.

Secular growth of the Ecommerce market in online payment and recurring payment areas, coupled with focusing on expanding the Group's business services to a diverse range of business operators including large scale merchants and non-EC merchants, resulted in the growth in transaction volume by 29.5% YoY and transaction value by 26.7% YoY.

In the offline market, sales of payment terminals was strong by capturing the high demand for IC chip-embedded credit card terminals as a result of the amendments to the Installment Sales Act. In addition, orders progressed favorably in the Unattended Market such as automated payment machines and ticket machines.

As a result, segment revenue reached ¥18,811 mil., up 27.1% YoY and segment profit (operating profit) was ¥10,031 mil., up 24.4% YoY.

The Ginko Pay service that enables smart payments to be made from the bank account, a support service for banks and financial service providers to realize their business opportunities in a cashless society, continued to increase the number of new participants such as The Bank of Okinawa Ltd., Hokuohoku Financial group Inc.

(The Hokkaido Bank Ltd. and The Hokuriku bank, Ltd.) and, The Hiroshima Bank Ltd., in addition to the other 8 banks that have already adopted this payment service platform system. Support services aimed at banks and financial service providers, such as Ginko Pay, is showing wider adoption among large regional banks as well as several large city banks.

In addition, the start of full scale marketing of “stera,” the next generation payment platform jointly developed with Sumitomo Mitsui Card Co. Ltd and Visa worldwide Japan Co. Ltd, is expected to contribute to the earnings from the fiscal year ending September 2020 and beyond.

b. Money Service Business

Money Service Business (MSB) consists of the Early Payment Service to help merchants improve their cash flow by receiving sales proceeds earlier tailored to the merchant's cash cycle needs, the Transaction Lending Service to lend growth capital to merchants based on their payment and other related data, the Remittance Service, and the GMO Payment After Delivery offered by the Group's consolidated subsidiary GMO Payment Service, Inc.

In the fiscal year under review, GMO Payment After Delivery and the Remittance Service showed a steady increase. In addition, steady growth of financial services that provide diverse support to the growth of B2B EC operators and the lending services to overseas business operators contributed to the increase in segment revenues.

As a result, segment revenue reached ¥7,478 mil. an increase of 19.6% YoY and segment profit (operating profit) reached ¥1,972 mil. an increase of 43.2% YoY boosted by revenue growth and the concerted effort to lower credit costs.

c. Payment Enhancement Business

Payment Enhancement Business comprises of mobile payment services (the “MPS business”) and authentication and notification services via SMS (the “the EMS business”), provided by our consolidated subsidiary Macro Kiosk Berhad, and an online advertising service to expand sales of the Group's merchants by analyzing their sales status and running timely ads on their behalf based on their sales data.

In the fiscal year under review, Macro Kiosk Berhad's revenue grew 13.9% YoY, with its mainstay EMS business growing 17.4% YoY, thanks to expanding the service coverage to emerging economies including Vietnam, which is positioned as a priority market, despite the slowdown in its home market of Malaysia. However, the MPS business revenue declined 14.2% YoY due to headwinds from changes in its business environment.

An impairment loss of ¥992 mil. has been incurred as a result of impairment testing of Macro Kiosk Berhad's goodwill and other assets. Despite the continued revenue growth, the burden of upfront investment to establish its business foundations in emerging markets has led to uncertainty over the medium term profit outlook at this point in time.

However, Macro Kiosk Berhad's importance in the Group's overall south east Asia strategy remains unchanged and given the continued service expansion to financial institutions and business operators in southeast Asian countries, we continue to pursue the policy to return the company on a path of revenue and operating profit growth trajectory through cost optimization and revenue expansion of the EMS business.

Online advertising service revenue reached ¥281 mil. a decline of 6.8% YoY due to the slowdown of ad placements in some of the services that were adversely affected by external factors.

Revenues at GMO Epsilon, a consolidated subsidiary that offers delivery services, declined 66.6% YoY to reach ¥102 mil. due to adverse changes in the business environment.

As a result of the above, segment revenue was ¥5,832 mil. an increase of 8.8 % YoY and segment losses (operating loss) was ¥1,151 mil. (previous fiscal year segment loss was ¥177mil.).

(*) Note that the “customer support services” has been renamed “online advertising service.”

Please see below for the table of the major businesses and companies providing these businesses by segment.

Segment	Major service	Major companies of the service
Payment Processing Business	Payment processing service (Online billing and recurring billing)	GMO Payment Gateway, Inc. GMO Epsilon, Inc. (consolidated subsidiary)
	Payment processing service (Offline payment)	GMO Financial Gate, Inc. (consolidated subsidiary)
Money Service Business	GMO Payment After Delivery	GMO Payment Service, Inc. (consolidated subsidiary)
	Remittance service	GMO Payment Gateway, Inc. GMO Epsilon, Inc. (consolidated subsidiary)
	Transaction lending	GMO Payment Gateway, Inc. GMO Epsilon, Inc. (consolidated subsidiary)
	Early Payment service	GMO Payment Gateway, Inc. GMO Epsilon, Inc. (consolidated subsidiary)
Payment Enhancement Business	Mobile payment, authentication and notification	Macro Kiosk Berhad (consolidated subsidiary)

(2) Status of consolidated financial position

Assets, liabilities and net assets

a. Assets

Total assets at the end of the consolidated fiscal year under review was up ¥23,131 mil. from the end of the previous fiscal year end at ¥139,990 mil. This is mainly due to an increase in cash and cash equivalents of ¥9,980 mil., an increase in advance payment of ¥10,229 mil., and an increase in accrued income of ¥5,848 mil. The Group has ¥2,800 mil. deposits to subsidiaries and affiliated companies included in the balance of cash and cash equivalents at the end of this consolidated fiscal year, as stated in “④ Cash and cash equivalents” of (6) Notes regarding condensed consolidated financial statements. Together with the ¥5,000 mil. of deposits to subsidiaries and affiliated companies stated in the condensed consolidated balance sheet, the total balance of the Group’s deposits to subsidiaries and affiliated companies stands at ¥7,800 mil. These deposits are the Group’s cash on hand that is deposited under the cash management system (CMS) implemented and managed by GMO Internet. As a result, this allows the Group to withdraw necessary funds without the need to wait until the predetermined CMS repayment date, by registering a request taking into account the designated number of days prior to when cash is needed.

b. Liabilities

Balance of liabilities at the end of the consolidated fiscal year under review stood at ¥112,451 mil., an increase of ¥21,612 mil. from the end of the previous consolidated fiscal year, mainly due to an increase in deposits received of ¥9,605 mil. and an increase in short term borrowing of ¥11,699 mil.

c. Equity

Equity balance at the end of the consolidated fiscal year under review was ¥27,539 mil., an increase of ¥1,519 mil. from the end of the previous consolidated fiscal year, mainly due to dividend paid out of retained earnings of ¥2,136 mil., and share buybacks of ¥689 and the decrease in other comprehensive income of ¥626 mil., despite the net profits of ¥5,052 mil.

(3) Status of consolidated cash flows

Cash and cash equivalents (hereinafter called “funds”) increased by ¥9,980 mil. from the balance at the start of the term, to ¥52,013 mil. The cash flows by activity for the fiscal year under review is discussed below.

a. Cash flow from operating activities

Net funds provided by operating activities in the consolidated fiscal year under review amounted to ¥1,311 mil., compared to ¥4,701 mil in the same period of previous year. This resulted from cash outflows of (i) increases in advances paid ¥10,229 mil., (ii) increase in accrued revenues ¥5,848 mil., that was netted against the cash inflows of (i) profit before tax of ¥8,039 mil., (ii) increase in deposits received ¥ 9,605 mil.

b. Cash flow from investing activities

Net funds provided by investing activities over the consolidated fiscal year under review totaled ¥858 mil., which compares to a net fund usage of ¥8,296 mil. in the same period of the previous year. This is due to cash outflow from the acquisition of intangible assets ¥1,356 mil., and deposits to subsidiaries and affiliated companies of ¥5,000 mil., which was netted against the cash inflow from the repayments from deposits to subsidiaries and affiliated companies of ¥7,000 mil.

c. Cash flow from financing activities

Net funds provided by financing activities over the consolidated fiscal year under review was a ¥7,959 mil., which compares to ¥18,067 mil. in the same period of the previous year. This is due to cash outflow from dividend payout of ¥2,134 mil. which was netted against the cash inflow from the net increase in short term borrowing of ¥11,699 mil.

(4) Basic Policy of Profit Distribution and Dividends

It is the Company's management task to achieve the balance between the need to secure retained earnings for strengthening the organization and for business expansion, while continuing to stably return profits to shareholders.

For the term-end dividends for the consolidated fiscal year under review, we have raised the dividend per share by ¥1 and revised the full year dividend plan to ¥36, given the current earnings trend and to respond to the shareholder's expectations on dividends. The previous dividend plan was ¥35 per share as disclosed in the “Summary of Consolidated Financial Statements for the Term Ended September 30, 2018 (IFRS)” announced on November 12, 2018. (Note 1)

The next fiscal year's dividend is planned at ¥42 per share, continuing the trend of dividend increase since the start dividend payments commenced, and reflects the favorable progress of the business plans and our efforts to continuously raise the medium-term enterprise value by enhancing shareholder's returns.

Retained earnings will continue to be used for strengthening the corporate organization as well as aggressive deployment for business expansion.

The revision to dividends is summarized in the table below.

	Full-year dividend				
	End of Q1	End of Q2	End of Q3	Term-end	Total
Previous plan (as of November 12, 2018)	Yen 0.00	Yen 0.00	Yen 0.00	Yen 35.00	Yen 35.00
Revised plan	-	-	-	36.00	36.00
Current Year	0.00	0.00	0.00		
Previous Year (Note 2) (Fiscal year ending September 2018)	0.00	0.00	0.00	58.00	58.00

Note 1: This will be placed on the agenda of the Board of Director's meeting to be held November 18, 2019.

2: On October 1, 2018, our company executed a 2-1 stock split. The dividend per share for the fiscal year ended September 2018 is on a pre-split basis.

(5) Review of consolidated earnings forecasts and other forecasts

The Group's core business is positioned within the E-Commerce market in Japan, and Japan's BtoC E-Commerce for merchandizing continues to grow very rapidly, helped by favorable externalities such as increased penetration of smartphone and logistic/distribution industry reforms, which contribute favorably to support the high growth of the core business. In addition, we aim to sustain a operating profit CAGR of over 25% in the medium to long term, by focusing on FinTech domain in the Money Service Business, the cashless domain as cashless penetration rises in line with other advanced countries, IoT domain in the offline market and the global domain.

For the fiscal year ending September 2020, the Group forecasts across-the-board growth in all segments of Payment Processing Business, Money Service Business and Payment Enhancement Business, through acquisition of large and high-growth merchants and financial institutions, expanding the financial-related services with Infomart Corporation, contribution from "stera" the next generation payment platform and also by monetizing new services in the pipeline.

The earnings forecast for consolidated fiscal year ending September 30, 2020 are as follows: revenue of ¥36,618 mil. (up 14.0% YoY), operating profit ¥10,376 mil. (up 25.0% YoY), profit before tax ¥9,867 mil. (up 22.8% YoY), profit ¥6,216 mil. (up 23.0% YoY), and profit attributable to owners of parent company ¥6,110 mil. (up 16.0% YoY).

2. Management Policy

(1) Basic management policy of the Company

The management principle of the group is to “pursue both spiritual and material prosperity for our partners by contributing to society.”

- We contribute to the advancement and progress of our society with a strong intention to create and develop markets, and the transparency in expanding business.
- We define our partners as our employees of high morals, customers and business partners.
- Our employees possess richness of spirit, advanced problem-solving abilities, and a high level of professionalism. They always pursue richness of spirit when they exchange values with our customers.

Based on the management principle, our mission is to become the best payment infrastructure in Japan and to contribute to safe and easy use of payment processing services for merchants and consumers. We are expanding our businesses according to the following management policy:

- Be adaptive to the changing times
 - Spirit of innovation: We strive to maintain/support technical superiority of our products.
 - Flexibility: Our project proposals are appropriate for the growing market's speed
- Establish our raison d'être
 - Uniqueness: We strive to maintain the value of our existence through customer-oriented services.
 - Profitability: We surpass competitors by pursuing revenue growth, and establish an unwavering position in the industry.
- Pursue all possible conditions for making profit
 - Sociability: Continue to actively develop greenfield markets for the various method of payments and only transact with socially accepted and sound businesses.
 - Rationality: We always make business judgements quickly and impartially considering important economic rationality.
- Obligation to shareholders
 - Strive to maximize shareholder value through improving capital efficiency.
 - Engage undertake Investor Relations activities to provide our shareholders with prompt and accurate information.

(2) Targeted Performance Indicators

The Group emphasizes an operating profit growth rate of 25% as a management performance indicator.

For the consolidated fiscal year under review, the operating profit grew at 26.7% YoY including the upfront investments to sustain the 25% operating profit growth in the medium term. The forecasted operating profit growth for term ending September 2020 is 25.0% YoY.

As a Group involved in providing the online payment infrastructure to the E-Commerce market, we will continue to contribute to the expansion of E-Commerce in the regions/countries where we operate, and to contribute to increase EC penetration by enhancing the security and convenience of the EC environment.

(3) Challenges to be addressed by the Company

① Strengthening the information security

We provide credit card payment processing services, and process and manage material information such as credit card numbers. As part of the process to strengthen risk management system and prevention of information leaks, we obtained certifications of ISO/IEC 27001:2013 (Japanese Standards, JIS Q27001: 2014), the global standards for information security management, for all of our business offices for the first time as a listed payment processing services company. Consequently, our information security management system has been objectively assessed to be appropriate and safe in compliance with strict international standards.

With regards to PCI DSS which was jointly established by five international credit card companies: JCB; American Express; Discover; MasterCard; and VISA, after obtaining the first certification in December 2008, we have passed annual recertification review nine times and have obtained the latest certification in December 2018.

Meanwhile, with respect to the handling of personal information, we obtained the privacy mark that certifies the companies which have improved the system for taking appropriate protection measures for personal information in compliance with the Japanese Industrial Standards “JIS Q 15001:2006 Personal Information Protection Management System – Requirements.” We have independently established and operate the personal information protection management system at a high level of protection in a manner that goes beyond mere compliance with the laws.

② Strengthening the system development capabilities

The group's business fields are deeply related to the Internet and we recognize that to provide customers with competitive products, it is important to adopt competitive technologies and services in a timely manner.

At present, our internal personnel incorporate changes in the system environment or requests from customers into our system designs and outsource programming work to provide efficient and quality services. We will try to continue to secure highly-skilled developers and further strengthen system development capabilities and services.

③ Strengthening the collaboration business

We recognize that to ensure stable growth, it is essential to establish mutually-beneficial business collaborations with corporations covering many merchants, payment companies or Ecommerce website builders to efficiently acquire new merchants.

The Company is fond of employing the above-mentioned business style, and it will continue to seek more of such business collaborations, which are and will be tracked by its management team.

④ Expansion of business portfolio

As its management strategy, the group has always strived to expand its business domains; we have stretched online payment fields of our coverage from mainly in B2C Ecommerce to public dues, utility charges, service commerce, B2B and C2C market space; we have also started a new type of payment service with the founding of GMO Payment Service Inc. In the previous fiscal year, we strengthened our overseas operations by acquiring Macro Kiosk Berhad, and expanded offline payment business by turning GMO Financial Gate Inc. into our subsidiary. We will continue to stretch our multifaceted business portfolio with its core being payment processing service, and strive to consecutively boost profits.

2. Basic Stance on Accounting Standard Selection

The group plans to voluntarily adopt International Financial Reporting Standards (IFRS) from the current fiscal year considering its engagement in global business expansion. Migration to IFRS should improve convenience on the part of our various stakeholders including domestic/overseas shareholders and investors, making comparison of our financial data with overseas peers easier and allowing for more expanded disclosure.

4. Condensed Consolidated Financial Statements and Major Notes

(1) Condensed consolidated balance sheet

(Unit: Thousand Yen)			
	Notes	End of previous consolidated fiscal year (September 30, 2018)	End of current consolidated fiscal year (September 30, 2019)
Assets			
Current assets			
Cash and cash equivalents	④	42,033,124	52,013,447
Operating and other receivables	⑤, ⑨	13,236,930	13,663,112
Advances paid		22,267,745	32,496,862
Accrued revenue		15,717,965	21,566,393
Inventories		64,537	207,280
Deposits to subsidiaries and affiliates	⑥	7,000,000	—
Other financial assets		706,745	165,584
Other current assets		1,205,270	956,398
Total current assets		102,232,318	121,069,081
Noncurrent assets			
Tangible assets		450,918	517,509
Goodwill and other intangible assets		4,934,688	4,359,129
Investments accounted using equity method		2,938,426	3,001,692
Deposits to subsidiaries and affiliates	⑥	—	5,000,000
Other financial assets		5,444,421	4,803,089
Deferred tax assets		833,886	1,124,014
Other noncurrent assets		24,297	116,082
Total noncurrent assets		14,626,639	18,921,518
Total assets		116,858,957	139,990,599

(Unit: Thousand Yen)			
	Notes	End of previous consolidated fiscal year (September 30, 2018)	End of current consolidated fiscal year (September 30, 2019)
Liabilities and equity			
Liabilities			
Current liabilities			
Operating and other payables		4,663,264	4,688,856
Accrued expenses	⑨	15,740,072	16,118,112
Deposits received	⑨	41,228,933	50,834,374
Borrowings		4,101,400	15,800,400
Other financial liabilities		98,852	108,534
Income taxes payable, etc.		1,530,203	1,569,616
Provisions		7,388	396,631
Other current liabilities		2,030,282	2,229,923
Total current liabilities		69,400,397	91,746,449
Noncurrent liabilities			
Corporate bonds		16,676,929	16,745,648
Borrowings		2,199,100	1,398,700
Other financial liabilities		185,223	223,363
Provision		64,055	35,848
Deferred tax liabilities		205,749	85,604
Other noncurrent liabilities		2,107,484	2,215,686
Total noncurrent liabilities		21,438,542	20,704,851
Total liabilities		90,838,939	112,451,301
Equity			
Capital stock		4,712,900	4,712,900
Capital surplus		5,758,448	5,847,480
Retained earnings		12,875,446	15,884,444
Treasury stock		△491,893	△1,181,846
Other items of equity		1,941,305	1,231,655
Total equity attributable to owners of parent		24,796,206	26,494,633
Minority interests		1,223,811	1,044,664
Total equity		26,020,018	27,539,297
Total liabilities and equity		116,858,957	139,990,599

(2) Condensed consolidated statement of income and consolidated statement of comprehensive income

Condensed consolidated statement of income

(Unit: Thousand Yen)			
	Notes	Previous consolidated fiscal year (from October 1 2017 to September 30, 2018)	Current consolidated fiscal year (From October 1, 2018 to September 30, 2019)
Revenue	⑩	26,417,320	32,121,894
Cost of revenue		Δ9,080,227	Δ11,617,173
Gross profit		17,337,092	20,504,721
Other income		165,290	153,725
Selling, general and administrative expenses		Δ10,470,657	Δ11,202,292
Other expense	⑧	Δ480,820	Δ1,154,933
Operating profit		6,550,904	8,301,220
Financial income		415,961	48,811
Financial expense		Δ63,370	Δ291,701
Equity method investment gains or loss		Δ203,416	Δ19,255
Profit before income taxes		6,700,079	8,039,076
Income tax expenses		Δ2,453,113	Δ2,986,659
Profit		4,246,965	5,052,416
Profit attributable to			
Owners of parent		4,255,069	5,267,465
Non-controlling interests		Δ8,104	Δ215,049
Profit		4,246,965	5,052,416
Earnings per share			
Basic earnings per share (yen)	⑪	57.75	71.61
Diluted earnings per share (yen)	⑪	57.46	70.09

Condensed consolidated statement of comprehensive income

		(Unit: Thousand Yen)	
	Notes	Previous consolidated fiscal year (from October 1 2017 to September 30, 2018)	Current consolidated fiscal year (From October 1, 2018 to September 30, 2019)
Profit		4,246,965	5,052,416
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Fair value of financial assets measured through other comprehensive income		1,650,239	△522,171
Share of other comprehensive income of equity method affiliates		117,760	△4,912
Total of Items that will not be reclassified to profit or loss		1,768,000	△527,083
Items that will be reclassified to profit or loss			
Exchange differences on translation of foreign operations		88,351	△11,968
Share of other comprehensive income of equity method affiliates		△17,870	△87,187
Total of items that will be reclassified to profit or loss		70,480	△99,156
Other comprehensive income after income taxes		1,838,481	△626,239
Comprehensive income		6,085,446	4,426,176
Comprehensive income attributable to			
Owners of parent		6,069,762	4,630,496
Non-controlling interests		15,683	△204,320
Total		6,085,446	4,426,176

(3) Condensed consolidated statement of changes in equity

Consolidated fiscal year (From October 1, 2017 to September 30, 2018)

(Unit: Thousand Yen)

Notes	Capital stock	Capital surplus	Retained earnings	Treasury stock	Other items of equity	Equity attributable to owners of parent	Non-controlling interests	Total Equity
Balance as of October 1, 2017	4,712,900	4,985,781	9,619,266	△256,269	613,768	19,675,447	1,093,870	20,769,318
Profit	—	—	4,255,069	—	—	4,255,069	△8,104	4,246,965
Other comprehensive income	—	—	—	—	1,814,692	1,814,692	23,788	1,838,481
Comprehensive income	—	—	4,255,069	—	1,814,692	6,069,762	15,683	6,085,446
Purchase of treasury stock	—	—	—	△249,782	—	△249,782	—	△249,782
Sale of treasury stock	—	73,760	—	14,157	—	87,918	—	87,918
Dividend	—	—	△1,485,920	—	—	△1,485,920	—	△1,485,920
Transfer from accumulated other comprehensive income to retained earnings	—	—	487,030	—	△487,030	—	—	—
Changes in the interests in controlled subsidiary	—	△30,707	—	—	—	△30,707	—	△30,707
Share-based payment transaction	—	186,125	—	—	△125	186,000	24,096	210,096
Total transactions with owners	—	772,666	△998,889	△235,624	△487,155	△949,003	114,256	△834,746
Balance as of September 30, 2018	4,712,900	5,758,448	12,875,446	△491,893	1,941,305	24,796,206	1,223,811	26,020,018

Consolidated fiscal year (From October 1, 2018 to September 30, 2019)

(Unit: Thousand Yen)

Notes	Capital stock	Capital surplus	Retained earnings	Treasury stock	Other items of equity	Equity attributable to owners of parent	Non-controlling interests	Total Equity
Balance as of October 1, 2018	4,712,900	5,758,448	12,875,446	△491,893	1,941,305	24,796,206	1,223,811	26,020,018
Cumulative effects of changes in accounting changes	—	—	△195,085	—	—	△195,085	—	△195,085
Restated Balance	4,712,900	5,758,448	12,680,361	△491,893	1,941,305	24,601,121	1,223,811	25,824,933
Profit	—	—	5,267,465	—	—	5,267,465	-215,049	5,052,416
Other Comprehensive income	—	—	—	—	△636,968	△636,968	10,728	△626,239
Comprehensive income	—	—	5,267,465	—	△636,968	4,630,496	-204,320	4,426,176
Purchase of treasury stock	—	—	—	△689,952	—	△689,952	—	△689,952
Dividends	—	—	△2,136,041	—	—	△2,136,041	—	△2,136,041
Transfer from other equity items to retained earnings	—	—	72,658	—	△72,658	—	—	—
Changes in the interests in controlled subsidiary	—	△8,211	—	—	—	△8,211	—	△8,211
Share-based payment transaction	—	97,243	—	—	△22	97,220	25,172	122,393
Total transactions with owners	—	89,032	△2,063,382	△689,952	△72,681	△2,736,984	25,172	△2,711,811
Balance as of September 31, 2019	4,712,900	5,847,480	15,884,444	△1,181,846	1,231,655	26,494,633	1,044,664	27,539,297

(4) Condensed consolidated statement of cash flows

		(Unit: Thousand Yen)	
	Notes	Previous consolidated fiscal year (from October 1 2017 to September 30, 2018)	Current consolidated fiscal year (From October 1, 2018 to September 30, 2019)
Net cash provided by (used in) operating activities			
Profit before income taxes		6,700,079	8,039,076
Depreciation & Amortization		965,935	1,113,513
Impairment Loss		359,469	992,503
Financial income and expense		△336,379	242,889
Equity method investment loss		203,416	19,255
Increase/decrease in inventories (△=increase)		29,940	△142,743
Increase/decrease in operating and other receivables (△=increase)		572,142	△516,681
In/Decrease in advances paid (△=increase)		△5,461,523	△10,229,117
Accrued revenues (△=increase)		△3,317,499	△5,848,540
In/Decrease in operating payables (△=decrease)		1,139,789	131,302
In/Decrease in accrued expenses (△=decrease)		2,995,397	278,295
In/Decrease in deposits received (△=decrease)		3,821,385	9,605,582
In/Decrease in provisions(△=decrease)		7,388	361,036
Other		39,290	143,449
Subtotal		7,718,835	4,189,822
Interest and dividends received		23,943	48,811
Interest paid		△39,929	△65,436
Proceeds from recovery of deposits		—	3,000,060
Increase in Deposits		△30,000	△3,120,000
Information security expenses paid		△67,041	—
Income taxes paid/refunded		△2,904,269	△2,741,613
Net cash provided by (used in) operating activities		4,701,537	1,311,644
Net cash provided by (used in) investing activities			
Increase in time deposits		△655,422	—
Proceeds from withdrawal of time deposits		—	689,374
Purchase of property, plants and equipment		△77,500	△156,181
Purchase of intangible assets		△1,076,813	△1,356,617
Purchase of investment securities		△333,519	△204,284
Proceeds from sales of investment securities		823,103	40,611
Purchase of stock of equity method affiliate		—	△102,248
Proceeds from distributions from Investment Partnership		62,991	131,699
Increase in deposits to subsidiaries and affiliates		△7,000,000	△5,000,000
Proceeds from repayment of deposits to subsidiaries and affiliates		—	7,000,000
Collection of long-term loans receivables		79,200	—
Acquisition of other financial assets		△9,699	△92,867
Proceeds from sales of other financial assets		1,070	9,220
Others		△109,623	△100,705
Net cash provided by (used in) investing activities		△8,296,214	858,000

(Unit: Thousand Yen)		
	Notes	
	Previous consolidated fiscal year (from October 1 2017 to September 30, 2018)	Current consolidated fiscal year (From October 1, 2018 to September 30, 2019)
Net cash provided by (used in) financing activities		
In/Decrease of short-term borrowings (△=decrease)	3,300,000	11,699,000
Repayment of long-term borrowings	△821,156	△800,400
Proceeds from issue of bonds	17,437,403	—
Purchase of treasury stock	△249,782	△689,952
Dividends paid	△1,483,765	△2,134,832
Other	△115,267	△114,795
Net cash provided by (used in) financing activities	18,067,432	7,959,019
Effect of exchange rate changes on cash and cash equivalents	26,852	△148,341
Increase and decrease in cash and cash equivalents (△=decrease)	14,499,608	9,980,323
Balance of cash and cash equivalents at the beginning of the period	④ 27,533,515	42,033,124
Cash and cash equivalents at the end of period	④ 42,033,124	52,013,447

(5) Notes regarding the going concern assumptions

N/A

(6) Notes regarding condensed consolidated financial statements

④ Cash and cash equivalents

Breakdown of cash and cash equivalents are as follows.

(Unit: Thousand Yen)

	End of previous consolidated fiscal year (September 30, 2018)	End of current consolidated fiscal year (September 30, 2019)
Cash and cash equivalents	37,033,124	49,213,447
Deposits to subsidiaries and affiliates	5,000,000	2,800,000
Total	42,033,124	52,013,447

⑤ Operating and other receivables

Breakdown of operating and other receivables are as follows.

(Unit: Thousand Yen)

	End of previous consolidated fiscal year (September 30, 2018)	End of current consolidated fiscal year (September 30, 2019)
Accounts receivable-trade	7,262,587	5,663,939
Operating loans	6,063,545	7,514,754
Other	14,613	590,916
Allowance for doubtful accounts	△103,815	△106,498
Total	13,236,930	13,663,112

⑥ Deposits to subsidiaries and affiliates

Our deposits to subsidiaries and affiliates are the deposits under the CMS of the GMO Internet Group

⑦ Segment Information

(2) The accounting policies adopted for the reportable segments are consistent from those applied to the consolidated financial statements.

Descriptions of each reportable segment are as follows:

Profits of reportable segments is defined as "Operating profits." Intersegment transaction prices are determined by taking into consideration the equivalent prices for an arm's length transaction.

Previous consolidated fiscal year (from October 1, 2017 to September 30, 2018)

(Unit: Thousand Yen)

	Payment Processing Business	Money Service Business	Payment Enhancement Business	Total	Adjustments (Note)	Consolidated
Revenue						
Sales to external customers	14,801,499	6,254,505	5,361,315	26,417,320	—	26,417,320
Intersegment revenue	—	—	—	—	—	—
Total	14,801,499	6,254,505	5,361,315	26,417,320	—	26,417,320
Segment profit or loss (Δ denotes loss)	8,064,804	1,377,684	Δ177,971	9,264,517	Δ2,713,612	6,550,904
Financial income	—	—	—	—	—	415,961
Financial expense	—	—	—	—	—	Δ63,370
Equity method investment gains or losses (Δ denotes loss)	—	—	—	—	—	Δ203,416
Profit before Income taxes	—	—	—	—	—	6,700,079
Other items						
Depreciation and amortization	705,020	18,752	137,624	861,397	104,538	965,935
Impairment Loss	—	—	359,469	359,469	—	359,469

(Note) "Adjustment" of segment income (loss) of ¥Δ2,713 mil., includes corporate expenses of ¥Δ2,806 mil. and intersegment transactions ¥93 mil. that are unallocated to each reportable segment. The corporate expense consists of general and administrative expenses that are unallocated to each reportable segment.

Current consolidated fiscal year (From October 1, 2018 to September 30, 2019)

(Unit: Thousand Yen)

	Payment Processing Business	Money Service Business	Payment Enhancement Business	Total	Adjustments (Note)	Consolidated
Revenue						
Sales to external customers	18,811,705	7,478,106	5,832,082	32,121,894	—	32,121,894
Intersegment revenue	—	—	—	—	—	—
Total	18,811,705	7,478,106	5,832,082	32,121,894	—	32,121,894
Segment profit (Δ denotes loss)	10,031,752	1,972,558	Δ1,151,178	10,853,132	Δ2,551,911	8,301,220
Financial income	—	—	—	—	—	48,811
Financial expense	—	—	—	—	—	Δ291,701
Equity method investment gains or losses (denoted by Δ)	—	—	—	—	—	Δ19,255
Profit before Income taxes	—	—	—	—	—	8,039,076
Other items						
Depreciation and amortization	835,716	46,482	160,215	1,042,414	71,099	1,113,513
Impairment Loss	—	—	992,503	992,503	—	992,503

(Note) "Adjustment" of segment income (loss) of ¥Δ2,551 mil., includes corporate expenses of ¥Δ2,647 mil. and intersegment transactions ¥95 mil. that are unallocated to each reportable segment. The corporate expense consists of general and administrative expenses that are unallocated to each reportable segment.

⑧ Impairment Loss

Previous consolidated fiscal year (from October 1, 2017 to September 30, 2018)

In the consolidated statement of income for the previous fiscal year, impairment loss amount of ¥359 mil. was recorded in the “Other Expenses.” The main asset type that was impaired is shown in the following table.

Reporting Segment	Cash generating unit group	Type and Amount
Payment Enhancement Business	Macro Kiosk Berhad Group	Goodwill ¥359 mil.

At Macro Kiosk Berhad, despite the continued strong performance and sustained growth outlook of its mainstay EMS business, the MPS revenue declined 14.1% YoY and the adverse market conditions and the competitive landscape has led to a lowered profit outlook. Hence, we have lowered the carrying value of applicable assets to its recoverable value, and recorded the impairment loss in the “Other Expenses” of the consolidated statement of income.

The value in use uses the present value which is computed by discounting the estimated cash flow, based on the 5-year business plan and growth rates that have been approved by the management. The perpetual growth rate of 2.5% and discount rate of 15.2% have been used in arriving at the value in use for the cash generating unit that includes goodwill resulting from the consolidation of Macro Kiosk Berhad.

Current consolidated fiscal year (from October 1, 2018 to September 30, 2019)

In the consolidated statement of income for the consolidated fiscal year under review, impairment loss amount of ¥992 mil. was recorded in the “Other Expenses” of the consolidated statement of income. The main asset type that was impaired is shown in the following table.

Reporting Segment	Cash generating unit group	Asset Type and Amount	
Payment Enhancement Business	Macro Kiosk Berhad Group	Goodwill	¥527 mil.
		Technology assets	¥123 mil.
		Software	¥123 mil.
		Customer related assets	¥121 mil.
		Other	¥97 mil.
		Total	¥992 mil.

The EMS business revenue at Macro Kiosk Berhad increased due to initiatives to accelerate growth of businesses in emerging markets such as Vietnam, the priority market after Malaysia, despite the business slowdown in the home market of Malaysia. On the other hand, the burden of higher expenses arising from the upfront investments carried out to establish business foundations in emerging economies, has led us to conclude that there is an increased uncertainty over the medium term profit outlook at this point in time, and thus the carrying amount of the applicable assets have been reduced to its recoverable asset value. The impairment loss has been recorded in “Other expense” in the consolidated statement of income. Note that the entire amount of the carrying value of goodwill, technology assets, software and customer related assets have been impaired.

The value in use uses the present value which is computed by discounting the estimated cash flow, based on the 5-year business plan and growth rates that have been revised according to reflect near term financial performance and approved by the management. The perpetual growth rate of 2.3% and discount rate of 14.3% have been used in arriving at the value in use for the cash generating unit that includes goodwill resulting from the consolidation of Macro Kiosk Berhad.

⑨ Treatment of Financial Assets and Liabilities

The Group has the legally enforceable right over some of its financial assets and liabilities to recognize the value of the assets and liabilities as a net amount, or to offset the financial assets and liabilities when the transaction of realization of the asset and settlement of liabilities is structured and intended to occur simultaneously. For these reasons, the net amount of the financial assets and liabilities is recognized in the condensed financial statements.

The following table shows the amount used to deduct (offset) the financial assets and liabilities for the same trade partner.

As of the current consolidated fiscal year (September 30, 2019)

(Unit: Thousand Yen)

	Gross Amount of Financial Assets	Amount deducted (netted) in the Condensed Financial Statement	Net amount shown in Condensed Financial Statement
Financial Asset Operating and Other Receivables	5,024,602	Δ2,799,022	2,225,579
Total	5,024,602	Δ2,799,022	2,225,579

(Unit: Thousand Yen)

	Gross Amount of Financial Liabilities	Amount deducted (netted) in the Condensed Financial Statement	Net amount shown in Condensed Financial Statement
Financial Asset Accrued Expenses	15,634,690	Δ598,491	15,036,199
Deposits Received	47,668,605	Δ2,200,530	45,468,074
Total	63,303,296	Δ2,799,022	60,504,273

⑪ Per share information

(1) Basis of calculating basic earnings per share

The basis for calculating basic earnings per share and earnings per share were as follows:

(Unit: Thousand Yen)

	Previous consolidated fiscal year (From October 1, 2017 to September 30, 2018)	Current consolidated fiscal year (From October 1, 2018 to September 30, 2019)
The basis for calculating basic earnings per share:		
Net profit attributable to owners of the parent	4,255,069	5,267,465
Amounts not attributable to ordinary shareholders of the parent	—	—
Net profit used to calculate basic earnings per share	4,255,069	5,267,465
Weighted average number of ordinary shares	73,680,448 shares	73,562,191 shares
Basic earnings per share	¥57.75 per share	¥71.61 per share

(2) Basis of calculating diluted earnings per share

The basis for calculating diluted earnings per share is as follows:

(Unit: Thousand Yen)

	Previous consolidated fiscal year (From October 1, 2017 to September 30, 2018)	Current consolidated fiscal year (From October 1, 2018 to September 30, 2019)
The basis for calculating diluted earnings per share:		
Net profit used to calculate basic earnings per share	4,255,069	5,267,465
Adjustments to net profit	15,535	46,540
Net profit used to calculate diluted earnings per share	4,270,605	5,314,005
Weighted average number of ordinary shares	73,680,448 shares	73,562,191 shares
Effects of dilutive potential on ordinary shares (Convertible bond)	641,312 shares	2,252,371 shares
Number of ordinary shares after effects of dilutive potential	74,321,760 shares	75,814,562 shares
Diluted earnings per share	¥57.46 per share	¥70.09 per share

(Note) On October 1, 2018, the company executed a 2-1 stock split. The values for earnings per share and diluted earnings per share are calculated by assuming the stock split to be carried out at the beginning of the previous consolidated fiscal year.