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Items Disclosed Online in Relation to the Notice of the 9th Annual General Meeting of Shareholders

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Mercari, Inc.

In accordance with the provisions of laws and regulations as well as Article 17 of the Articles of Incorporation, Mercari, Inc. has provided these documents to shareholders on its website (<https://about.mercari.com/en/>).

Business Report

1. Stock acquisition rights

(1) Status of stock acquisition rights (as of June 30, 2021)

Name (Issue date)	Number of stock acquisition rights (Units)	Class and number of shares to be issued upon exercise of stock acquisition rights (Shares)	Amount paid per unit	Exercise price per share (Yen)	Exercise period of stock acquisition rights
5th series stock acquisition rights (August 20, 2014)	300	Common stock 3,000	Without contribution	20	From August 21, 2016 to August 19, 2024
8th series stock acquisition rights (December 22, 2014)	12,000	Common stock 120,000	Without contribution	20	From December 23, 2016 to August 19, 2024
10th series stock acquisition rights (February 14, 2015)	150	Common stock 1,500	Without contribution	20	From February 15, 2017 to August 19, 2024
11th series stock acquisition rights (February 14, 2015)	4,400	Common stock 44,000	Without contribution	20	From February 15, 2017 to August 19, 2024
13th series stock acquisition rights (June 27, 2015)	386	Common stock 3,860	Without contribution	20	From June 27, 2015 to June 27, 2025
14th series stock acquisition rights (August 22, 2015)	1,900	Common stock 19,000	Without contribution	20	From August 23, 2017 to August 21, 2025
15th series stock acquisition rights (August 22, 2015)	2,500	Common stock 25,000	Without contribution	20	From August 23, 2017 to August 19, 2024
18th series stock acquisition rights (February 13, 2016)	1,140	Common stock 11,400	Without contribution	102	From February 14, 2018 to February 12, 2026
21st series stock acquisition rights (June 25, 2016)	66,276	Common stock 662,760	Without contribution	102	From June 26, 2018 to February 12, 2026
25th series stock acquisition rights (August 31, 2016)	1,030	Common stock 10,300	Without contribution	332	From September 1, 2018 to August 30, 2026
26th series stock acquisition rights (August 31, 2016)	4,386	Common stock 43,860	Without contribution	332	From September 1, 2018 to August 30, 2026
27th series stock acquisition rights (August 31, 2016)	3,150	Common stock 31,500	Without contribution	332	From August 31, 2016 to August 31, 2026
28th series stock acquisition rights (December 14, 2016)	1,100	Common stock 11,000	Without contribution	332	From December 15, 2018 to August 30, 2026
29th series stock acquisition rights (December 14, 2016)	1,204	Common stock 12,040	Without contribution	332	From December 15, 2018 to August 30, 2026
30th series stock acquisition rights (February 24, 2017)	3,990	Common stock 39,900	Without contribution	353	From February 25, 2019 to February 23, 2027
32nd series stock acquisition rights (February 24, 2017)	3,240	Common stock 32,400	Without contribution	353	From February 24, 2017 to February 24, 2027

Name (Issue date)	Number of stock acquisition rights (Units)	Class and number of shares to be issued upon exercise of stock acquisition rights (Shares)	Amount paid per unit	Exercise price per share (Yen)	Exercise period of stock acquisition rights
34th series stock acquisition rights (June 23, 2017)	196,025	Common stock 1,960,250	Without contribution	353	From June 24, 2019 to February 23, 2027
35th series stock acquisition rights (June 23, 2017)	104,720	Common stock 1,047,200	Without contribution	353	From June 24, 2019 to February 23, 2027
36th series stock acquisition rights (June 23, 2017)	45,046	Common stock 450,460	Without contribution	353	From June 23, 2017 to June 23, 2027
38th series stock acquisition rights (November 29, 2017)	1,017,850	Common stock 1,017,850	Without contribution	3,000	From November 30, 2019 to November 28, 2027
39th series stock acquisition rights (March 13, 2018)	12,000	Common stock 12,000	Without contribution	3,000	From March 14, 2020 to March 12, 2028
40th series stock acquisition rights (October 12, 2020)	265,522	Common stock 265,522	Without contribution	1	From September 25, 2023 to September 24, 2030
41st series stock acquisition rights (October 12, 2020)	295,637	Common stock 295,637	Without contribution	1	From June 1, 2022 to December 31, 2025
42nd series stock acquisition rights (March 25, 2021)	85,936	Common stock 85,936	Without contribution	1	From September 1, 2021 to March 31, 2023
43rd series stock acquisition rights (March 25, 2021)	13,858	Common stock 13,858	Without contribution	1	From September 1, 2021 to September 30, 2023
Total	2,143,746	Common stock 6,220,233	–	–	–

(2) Stock acquisition rights held by Directors and Audit and Supervisory Board Members of Mercari, Inc. (the “Company”) which were issued as consideration for their performance of duties (as of June 30, 2021)

1) Stock acquisition rights held by Directors (excluding Outside Directors)

Name (Issue date)	Number of holders	Number of stock acquisition rights held (Units)	Class and number of shares to be issued upon exercise of stock acquisition rights (Shares)
8th series stock acquisition rights (December 22, 2014)	1	12,000	Common stock 120,000
21st series stock acquisition rights (June 25, 2016)	2	66,276	Common stock 662,760
34th series stock acquisition rights (June 23, 2017)	2	180,000	Common stock 1,800,000
40th series stock acquisition rights (October 12, 2020)	2	265,522	Common stock 265,522

(Notes) 1. On October 20, 2017, the Company conducted a 10:1 stock split of its common stock, pursuant to the resolution of the Board of Directors on September 14, 2017. As a result, the number of shares to be issued upon exercise of stock acquisition rights, amount to be paid upon exercise of stock acquisition rights, and share issue price and amount of additional paid-in capital if shares are issued owing to the exercise of stock acquisition rights have been adjusted.

2. The conditions for exercising the 8th series, 21st series, and 34th series stock acquisition rights are as follows:

- 1) Concerning the stock acquisition rights to be exercised or their right holders, the stock acquisition rights may be exercised as long as the circumstances for the Company’s acquisition of the stock acquisition rights provided in the Guidance for Issuing Stock Acquisition Rights have not occurred. The stock acquisition rights may not be exercised if the aforementioned circumstances have occurred, unless otherwise permitted by the Company in exceptional circumstances.
- 2) The exercise of the stock acquisition rights requires that the right holders are alive, and in cases where the right holders are deceased, the stock acquisition rights will not be succeeded and can no longer be exercised, unless otherwise permitted by the Company in exceptional circumstances.
- 3) Other conditions concerning the exercise of the stock acquisition rights shall be governed by agreements on the allotment of the stock acquisition rights entered into between the Company and a person who has received the allotment of the stock acquisition rights based on the resolution of the Board of Directors where the issuance of the stock acquisition rights was decided.

3. The conditions for exercising the 40th series stock acquisition rights are as follows:

- 1) The right holders may exercise the Stock Options from the day following the date on which the condition that the Market Capitalization of the Company (calculated by the following formula) exceeds ¥1 trillion on each day of a certain five consecutive business days (excluding the days on which ordinary transactions of the Company’s common stock cannot take place) is fulfilled during the period lasting from the allocation date to September 24, 2030.

Market Capitalization = (Total number of outstanding shares of the Company* – Treasury stock held by the Company*) × Closing price of ordinary transactions of the Company’s common stock on the Tokyo Stock Exchange

* Both shall be numerical values on each day of the aforementioned consecutive five business days.

- 2) The right holders may, to the extent that each condition stipulated in the following Items is fulfilled, exercise the stock acquisition rights only during the period (each period includes the first day and the last day of this period; hereinafter the same in this Paragraph) from the day following the date on which the condition is fulfilled to the expiration date of the exercise period for these stock acquisition rights, up to the number stipulated in the following Items (provided, however, that if the Board of Directors of the Company deems legitimate, the right holders may exercise the stock acquisition rights). If there is any fraction less than one share with respect to the number of the exercisable Stock Options obtained in accordance with the following Items, (a) the number of the Stock Options which may be exercised during the period shall be rounded down to the nearest whole number and (b) the number of the Stock Options which may be exercised during the period stipulated in Item (iii) shall be the total of all fractions rounded down in accordance with (a) above and the number of Stock Options obtained in accordance with such Item:
 - (i) If the right holders continuously hold a position of Director of the Company until the conclusion of the Annual General Meeting of Shareholders for the last business year which ends within three years from the allotment date:
a third of the total number of allotted Stock Options;
 - (ii) If the right holders continuously hold a position of Director of the Company until the conclusion of the Annual General Meeting of Shareholders for the last business year which ends within four years from the allotment date:
a third of the total number of allotted Stock Options; and

- (iii) If the right holders continuously hold a position of Director of the Company until the conclusion of the Annual General Meeting of Shareholders for the last business year which ends within five years from the allotment date:
a third of the total number of allotted Stock Options.
- 3) Concerning the stock acquisition rights to be exercised or their right holders, the stock acquisition rights may be exercised as long as the circumstances for the Company's acquisition of the stock acquisition rights provided in the Guidelines for Issuing Stock Acquisition Rights have not occurred. The stock acquisition rights may not be exercised if the aforementioned circumstances have occurred, unless otherwise permitted by the Company in exceptional circumstances.
 - 4) The exercise of the stock acquisition rights requires that the right holders are alive, and in cases where the right holders are deceased, the stock acquisition rights will not be succeeded and can no longer be exercised, unless otherwise permitted by the Company in exceptional circumstances.
 - 5) Other conditions concerning the exercise of the stock acquisition rights shall be governed by agreements on the allotment of the stock acquisition rights entered into between the Company and a person who has received the allotment of the stock acquisition rights based on the resolution of the Board of Directors where the issuance of the stock acquisition rights was decided.

2) Stock acquisition rights held by Audit and Supervisory Board Members

Name (Issue date)	Number of holders	Number of stock acquisition rights held (Units)	Class and number of shares to be issued upon exercise of stock acquisition rights (Shares)
11th series stock acquisition rights (February 14, 2015)	1	4,400	Common stock 44,000
15th series stock acquisition rights (August 22, 2015)	1	2,500	Common stock 25,000
18th series stock acquisition rights (February 13, 2016)	1	600	Common stock 6,000
25th series stock acquisition rights (August 31, 2016)	1	300	Common stock 3,000
30th series stock acquisition rights (February 24, 2017)	1	150	Common stock 1,500
34th series stock acquisition rights (June 23, 2017)	1	300	Common stock 3,000
38th series stock acquisition rights (November 29, 2017)	1	750	Common stock 750

- (Notes) 1. On October 20, 2017, the Company conducted a 10:1 stock split of its common stock, pursuant to the resolution of the Board of Directors on September 14, 2017. As a result, the number of shares to be issued upon exercise of stock acquisition rights, amount to be paid upon exercise of stock acquisition rights, and share issue price and amount of additional paid-in capital if shares are issued owing to the exercise of stock acquisition rights have been adjusted.
2. The conditions for exercising the 11th series, 15th series, 18th series, 25th series, 30th series, 34th series, and 38th series stock acquisition rights are as follows:
- 1) Concerning the stock acquisition rights to be exercised or their right holders, the stock acquisition rights may be exercised as long as the circumstances for the Company's acquisition of the stock acquisition rights provided in the Guidance for Issuing Stock Acquisition Rights have not occurred. The stock acquisition rights may not be exercised if the aforementioned circumstances have occurred, unless otherwise permitted by the Company in exceptional circumstances.
 - 2) The exercise of the stock acquisition rights requires that the right holder is alive, and in cases where the right holder is deceased, the stock acquisition rights will not be succeeded and can no longer be exercised, unless otherwise permitted by the Company in exceptional circumstances.
 - 3) Other conditions concerning the exercise of the stock acquisition rights shall be governed by agreements on the allotment of the stock acquisition rights entered into between the Company and a person who has received the allotment of the stock acquisition rights based on the resolution of the Board of Directors where the issuance of the stock acquisition rights was decided.

(3) Stock acquisition rights delivered to employees (excluding Officers) of the Company which were issued as consideration for their performance of duties during the current fiscal year

Name (Issue date)	Number of persons subject to granting	Number of stock acquisition rights delivered (Units)	Class and number of shares to be issued upon exercise of stock acquisition rights (Shares)
41st series stock acquisition rights (October 12, 2021)	6	295,637	Common stock 295,637
42nd series stock acquisition rights (March 25, 2021)	134	93,123	Common stock 93,123
43rd series stock acquisition rights (March 25, 2021)	1	13,858	Common stock 13,858

- (Notes) 1. The conditions for exercising the 41st series stock acquisition rights are as follows:
- 1) The right holders may exercise the stock acquisition rights only if the right holders, until the exercise, continuously hold a position of Senior Vice President of the Company; provided, however, that if the Board of Directors of the Company deems legitimate, the right holders may exercise the stock acquisition rights.
 - 2) The right holders may exercise the stock acquisition rights only during the period (each period includes the first day and the last day of this period), up to the number stipulated in the following Items. If there is any fraction less than one share with respect to the number of the exercisable Stock Options obtained in accordance with the following Items, (a) the number of the Stock Options which may be exercised during the period shall

- be rounded down to the nearest whole number and (b) the number of the Stock Options which may be exercised during the period stipulated in Item (vii) shall be the total of all fractions rounded down in accordance with (a) above and the number of Stock Options obtained in accordance with such Item:
- (i) From June 1, 2022 to December 31, 2022:
a fourth of the total number of allotted Stock Options;
 - (ii) From December 1, 2022 to December 31, 2022:
an eighth of the total number of allotted Stock Options;
 - (iii) From June 1, 2023 to December 31, 2023:
an eighth of the total number of allotted Stock Options;
 - (iv) From December 1, 2023 to December 31, 2023:
an eighth of the total number of allotted Stock Options;
 - (v) From June 1, 2024 to December 31, 2024:
an eighth of the total number of allotted Stock Options;
 - (vi) From December 1, 2024 to December 31, 2024:
an eighth of the total number of allotted Stock Options; and
 - (vii) From June 1, 2025 to December 31, 2025:
an eighth of the total number of allotted Stock Options.
- 3) Concerning the stock acquisition rights to be exercised or their right holders, the stock acquisition rights may be exercised as long as the circumstances for the Company's acquisition of the stock acquisition rights provided in the Guidelines for Issuing Stock Acquisition Rights have not occurred. The stock acquisition rights may not be exercised if the aforementioned circumstances have occurred, unless otherwise permitted by the Company in exceptional circumstances.
 - 4) The exercise of the stock acquisition rights requires that the right holders are alive, and in cases where the right holders are deceased, the stock acquisition rights will not be succeeded and can no longer be exercised, unless otherwise permitted by the Company in exceptional circumstances.
 - 5) Other conditions concerning the exercise of the stock acquisition rights shall be governed by agreements on the allotment of the stock acquisition rights entered into between the Company and a person who has received the allotment of the stock acquisition rights based on the resolution of the Board of Directors where the issuance of the stock acquisition rights was decided.
2. The conditions for exercising the 42nd series stock acquisition rights are as follows:
- 1) The right holders may exercise the stock acquisition rights only if the right holders, until the exercise, continuously hold any of the positions stipulated in the following Items; provided, however, that if the Board of Directors of the Company deems legitimate, the right holders may exercise the stock acquisition rights.
 - (i) Directors or Audit and Supervisory Board Members of the Company or its subsidiaries (meaning subsidiaries prescribed in Article 2, item (iii) of the Companies Act; hereinafter the same)
 - (ii) Employees of the Company or its subsidiaries
 - 2) The right holders may exercise the stock acquisition rights only during the period (each period includes the first day and the last day of this period), up to the number stipulated in the following Items. If there is any fraction less than one share with respect to the number of the exercisable Stock Options obtained in accordance with the following Items, (a) the number of the Stock Options which may be exercised during the period shall be rounded down to the nearest whole number and (b) the number of the Stock Options which may be exercised during the period stipulated in Item (iv) shall be the total of all fractions rounded down in accordance with (a) above and the number of Stock Options obtained in accordance with such Item:
 - (i) From September 1, 2021 to September 30, 2021:
a third of the total number of allotted Stock Options;
 - (ii) From March 1, 2022 to March 31, 2022:
a third of the total number of allotted Stock Options;
 - (iii) From September 1, 2022 to September 30, 2022:
a sixth of the total number of allotted Stock Options; and
 - (iv) From March 1, 2023 to March 31, 2023:
a sixth of the total number of allotted Stock Options.
 - (3) Concerning the stock acquisition rights to be exercised or their right holders, the stock acquisition rights may be exercised as long as the circumstances for the Company's acquisition of the stock acquisition rights provided in the Guidelines for Issuing Stock Acquisition Rights have not occurred. The stock acquisition rights may not be exercised if the aforementioned circumstances have occurred, unless otherwise permitted by the Company in exceptional circumstances.
 - (4) The exercise of the stock acquisition rights requires that the right holders are alive, and in cases where the right holders are deceased, the stock acquisition rights will not be succeeded and can no longer be exercised, unless otherwise permitted by the Company in exceptional circumstances.
 - (5) Other conditions concerning the exercise of the stock acquisition rights shall be governed by agreements on the allotment of the stock acquisition rights entered into between the Company and a person who has received the allotment of the stock acquisition rights based on the resolution of the Board of Directors where the issuance of the stock acquisition rights was decided.

3. The conditions for exercising the 43rd series stock acquisition rights are as follows:
- 1) The right holders may exercise the stock acquisition rights only if the right holders, until the exercise, continuously hold any of the positions stipulated in the following Items; provided, however, that if the Board of Directors of the Company deems legitimate, the right holders may exercise the stock acquisition rights.
 - (i) Directors or Audit and Supervisory Board Members of the Company or its subsidiaries (meaning subsidiaries prescribed in Article 2, item (iii) of the Companies Act; hereinafter the same)
 - (ii) Employees of the Company or its subsidiaries
 - 2) The right holders may exercise the stock acquisition rights only during the period (each period includes the first day and the last day of this period), up to the number stipulated in the following Items. If there is any fraction less than one share with respect to the number of the exercisable Stock Options obtained in accordance with the following Items, (a) the number of the Stock Options which may be exercised during the period shall be rounded down to the nearest whole number and (b) the number of the Stock Options which may be exercised during the period stipulated in Item (iii) shall be the total of all fractions rounded down in accordance with (a) above and the number of Stock Options obtained in accordance with such Item:
 - (i) From September 1, 2021 to September 30, 2021:
a fifth of the total number of allotted Stock Options;
 - (ii) From September 1, 2022 to September 30, 2022
two fifths of the total number of allotted Stock Options; and
 - (iii) From September 1, 2023 to September 30, 2023
two fifths of the total number of allotted Stock Options.
 - 3) Concerning the stock acquisition rights to be exercised or their right holders, the stock acquisition rights may be exercised as long as the circumstances for the Company's acquisition of the stock acquisition rights provided in the Guidelines for Issuing Stock Acquisition Rights have not occurred. The stock acquisition rights may not be exercised if the aforementioned circumstances have occurred, unless otherwise permitted by the Company in exceptional circumstances.
 - 4) The exercise of the stock acquisition rights requires that the right holders are alive, and in cases where the right holders are deceased, the stock acquisition rights will not be succeeded and can no longer be exercised, unless otherwise permitted by the Company in exceptional circumstances.
 - 5) Other conditions concerning the exercise of the stock acquisition rights shall be governed by agreements on the allotment of the stock acquisition rights entered into between the Company and a person who has received the allotment of the stock acquisition rights based on the resolution of the Board of Directors where the issuance of the stock acquisition rights was decided.

(4) Other important matters regarding stock acquisition rights

At the meeting of the Board of Directors held on June 28, 2021, the Company resolved to issue Zero Coupon Convertible Bonds due in 2026 and Zero Coupon Convertible Bonds due in 2028, and payment was completed on July 14, 2021 (London time). The status at the time of issuance is as follows:

Security titles	Remaining bonds with stock acquisition rights	Number of stock acquisition rights	Class of shares to be issued upon exercise of stock acquisition rights	Exercise period of stock acquisition rights	Exercise of stock acquisition rights
Zero Coupon Convertible Bonds due in 2026	¥25,000 million	2,500 units	Common stock	From July 28, 2021 to June 30, 2026	¥9,346
Zero Coupon Convertible Bonds due in 2028	¥25,000 million	2,500 units	Common stock	From July 28, 2021 to June 30, 2028	¥9,346

2. System to ensure the appropriateness of business operations and the status of its implementation

(1) System to ensure the appropriateness of business operations

Below is a summary of matters decided in relation to the system to ensure that the performance of duties by the Directors conforms with laws, regulations and the Articles of Incorporation, and other systems for ensuring appropriateness of the Company's operations.

- 1) System to ensure that Directors and employees comply with laws, regulations and the Articles of Incorporation in performing their duties
 - a. The Company ensures that Directors and employees have a sufficient awareness of compliance and abide by laws, regulations, the Articles of Incorporation and internal regulations in performing their duties.
 - b. The Company, in cooperation with attorneys, the police and other professionals, takes a resolute stance against anti-social forces that threaten the order and safety of civil society.
 - c. The Company stipulates official authority, clearly defines responsibilities and authority, and establishes a system for the performance of duties in each division.
 - d. The Company provides an internal reporting hotline and establishes a system for consultation and internal compliance reporting ("Whistleblowing System").
 - e. Directors and employees who violate laws or regulations are subject to discipline in accordance with the Rules of Employment, etc.
- 2) System to ensure that Directors comply with laws, regulations and the Articles of Incorporation in performing their duties
 - a. In order to satisfy compliance with laws, regulations and other rules, as well as propriety in accordance with management decisions, the Board of Directors supervises decisions in executing business and supervision of the duties of Directors.
 - b. Audit and Supervisory Board Members exercise their authority as stipulated by laws and regulations to audit Directors' performance of their duties.
- 3) System related to the storage and management of information for the performance of Directors' duties
 - a. The Company establishes the Document Management Regulations and appropriately retains and manages important documents containing information relating to the performance of duties by Directors (including electromagnetic records), such as minutes of important meetings, in accordance with the provisions of those regulations.
 - b. The Company establishes the Information Management Regulations to protect and manage information assets.
- 4) Regulations and other systems concerning management of the risk of losses
 - a. Directors ascertain the various risks associated with the Company's business and endeavor to identify, assess, and manage these risks with an understanding of the importance of performing risk management in an integrated manner.
 - b. The Company establishes a risk management system to prepare for disasters, accidents, system failures and other unforeseen circumstances.
- 5) System to ensure the efficient performance of duties by Directors
 - a. The Board of Directors operates in accordance with the Articles of Incorporation and Board of Directors Regulations and holds meetings regularly every month, with additional meetings as necessary.
 - b. Directors perform their duties efficiently, flexibly and swiftly by working closely to exchange opinions and share information.

- c. To ensure the efficient performance of duties by Directors, the Company establishes the Regulations for Company Organization, the Regulations for Administrative Authority and the Approval Regulations.
- 6) System to ensure that employees comply with laws, regulations and the Articles of Incorporation in performing their duties
- a. The Company prepares and uses the necessary approval systems, internal regulations, manuals, etc. and makes these known to employees.
 - b. The Company establishes a personal information protection system and designates a personal information protection manager who plays a central role in the operation of the system. Furthermore, the Company establishes an administrative office under the direction of the manager and endeavors to continuously improve the protection of personal information.

- 7) System to ensure the appropriateness of the business operations of the Group consisting of the Company and its subsidiaries

The Company employs the following measures in order for the Company and its subsidiaries to share the same missions and values, and make the most of business resources throughout the Group to maximize the value of the Group's business as a whole.

- a. In order to promote the propriety of management throughout the Group, the Company stipulates Regulation for Group Companies Management. The Company respects the autonomy of subsidiaries, but the Company requires the subsidiaries to share information on operations regarding important matters with the Company in advance as provided for by the same regulations to ensure appropriate business operations as part of the Group under the Company's involvement.
 - b. The regulations and other systems concerning management of the risk of losses as described in 4) apply to all companies within the Group, and the Company manages the risk of the Group as a whole in an all-encompassing and comprehensive manner.
 - c. The authority and responsibilities of subsidiaries in performing their duties are clearly stipulated in the Regulation for the Division of Duties, Regulation for Administrative Authority and other internal regulations in order for subsidiaries to carry out business operations efficiently.
 - d. The person in charge of internal auditing of the Company carries out an internal audit of the Group's business activities to ensure they are appropriate and in compliance with laws, regulations and the Articles of Incorporation. The audit results are reported to the Representative Director and shared with Audit and Supervisory Board Members and independent auditor.
- 8) Matters related to employees who are requested by Audit and Supervisory Board Members to assist with their duties, matters related to the independence of those employees from Directors, and matters related to ensuring effectiveness of directions to those employees
- a. Audit and Supervisory Board Members can request the assignment of employees ("Employees Assisting Audit and Supervisory Board Members") to assist with their duties to the Board of Directors.
 - b. Employees Assisting Audit and Supervisory Board Members shall exclusively work under Audit and Supervisory Board Members and shall not concurrently perform duties for other divisions or departments. Employees Assisting Audit and Supervisory Board Members will follow the directions and instructions of Audit and Supervisory Board Members to collect all necessary information.
 - c. Reassignment, performance evaluations and disciplinary action related to Employees Assisting Audit and Supervisory Board Members require the prior consent of Audit and Supervisory Board Members.
 - d. Employees Assisting Audit and Supervisory Board Members can accompany Audit and Supervisory Board Members to participate in Board of Directors meetings and other important meetings, as well as regular meetings held with Representative Director and independent auditor to exchange opinions. Furthermore, if necessary, they may receive advice on auditing tasks from attorneys, certified public accountants and other professionals.
 - e. The Company grants investigation authority and information gathering authority necessary for execution of operations to Employees Assisting Audit and Supervisory Board Members.

- 9) System for Directors and employees to report to Audit and Supervisory Board Members
- a. Directors and employees will report the following matters to Audit and Supervisory Board Members without delay: matters required by laws, matters that may have a significant impact on the Company, matters decided at important meetings, the status of the Whistleblowing System and internal auditing system, etc.
 - b. Directors and employees will promptly report the status of the performance of their duties when requested by an Audit and Supervisory Board Member.
 - c. When making decisions regarding employee evaluations and disciplinary action involving a whistleblower, the whistleblowing must not be taken into account, and the whistleblower may request an Audit and Supervisory Board Member to investigate into the reasons behind their employee evaluation, reassignment and disciplinary action.
- 10) System for Directors and employees of subsidiaries, or those who have received reports from either of the foregoing, to report to Audit and Supervisory Board Members of the Company
- a. Directors and employees of subsidiaries will promptly report matters related to the performance of their duties when requested by an Audit and Supervisory Board Member of the Company.
 - b. Directors and employees of subsidiaries will report matters that may have a significant impact on the Company or the Company's subsidiaries such as violations of laws and regulations, etc., without delay upon discovery of such matters.
 - c. When making decisions regarding employee evaluations and disciplinary action involving a whistleblower, the whistleblowing must not be taken into account, and the whistleblower may request an Audit and Supervisory Board Member to investigate into the reasons behind their employee evaluation, reassignment and disciplinary action.
- 11) Matters related to the policy for expenses and liabilities that arise as a result of Audit and Supervisory Board Members performing their duties
- The Company will promptly process expenses arising from regular auditing practices when Audit and Supervisory Board Members submit requests for payment of such expenses. Other than usual audit expenses, if emergency audit expenses or expenses to hire professionals for new investigations arise, Audit and Supervisory Board Members must notify the relevant Officer in advance.
- 12) Other systems to ensure that audits by Audit and Supervisory Board Members are performed effectively
- a. Audit and Supervisory Board Members will periodically exchange opinions with the Representative Director. Furthermore, they will hold interviews with Directors and employees in key positions as necessary.
 - b. Audit and Supervisory Board Members will exchange opinions with independent auditor as necessary.
 - c. Audit and Supervisory Board Members can independently seek the advice of attorneys, certified public accountants, and other professionals as necessary.
 - d. Audit and Supervisory Board Members will periodically exchange opinions and work on improving cooperation with the person in charge of internal auditing.
- 13) System to ensure the reliability of financial reporting
- The Company sets out the basic policy relating to the establishment of the internal control system, establishes the internal controls relating to financial reporting and puts these policies and controls into operation.
- 14) Basic policy and status of implementation of efforts toward exclusion of anti-social forces
- a. The Company has established the basic policy that it will have no association whatsoever with anti-social forces and absolutely rejects any improper solicitation. The Company clearly has stated this policy in writing and disseminates throughout the Company. If a business partner is deemed to be an individual, company or group with ties to anti-social forces, all business with that business partner will be terminated.

- b. The Company assigns the responsibilities concerning exclusion of anti-social forces to the department in charge of compliance, which centrally manages and collects, etc. pertinent information. While building systems that prevent incidents involving loss by anti-social forces, the Company conducts education and training to ensure Officers and employees comply with the basic policy.
- c. If improper solicitation is received from anti-social forces, the Company shall work with external specialist bodies such as the police and attorneys in order to build a structure of cooperation in case of such event.

(2) Status of implementation of the system to ensure the appropriateness of business operations

In the current fiscal year, the Company carried out its operations in accordance with the aforementioned “System to ensure the appropriateness of business operations.” Below is an overview of these efforts.

1) Performance of duties of the Board of Directors

The Company ensures that Directors act in accordance with laws, regulations and the Articles of Incorporation, and strengthens its supervisory functions by appointing multiple Outside Directors and by providing opportunities for the Outside Directors to actively communicate through the Board of Directors’ meetings and other such occasions. 13 meetings of the Board of Directors were held in the current fiscal year, and Outside Directors that have no conflict of interest with the Company were always in attendance to ensure that Directors performed their duties lawfully and to improve the appropriateness and efficiency of the Directors’ performance of duties.

2) Implementation of an internal audit

In the current fiscal year, in accordance with the internal audit schedule, the person in charge of internal auditing carried out a business audit regarding the status of compliance with laws and regulations, and carried out internal audits of the Company’s head office, Sendai office, Fukuoka office, subsidiaries in Japan, and a subsidiary in the U.S. The results were reported to the Representative Director.

3) Performance of duties of Audit and Supervisory Board Members

In addition to holding 12 meetings of the Audit and Supervisory Board, Audit and Supervisory Board Members worked to improve and enhance the audit functions by carrying out audits in accordance with the audit schedule set forth at a meeting of the Audit and Supervisory Board, attending meetings of the Board of Directors, and regularly holding meetings with the Representative Director. Also, through audits in collaboration with the independent auditor and person in charge of internal auditing, and by verifying the status of internal audits, Audit and Supervisory Board Members monitor the Company’s internal control system as a whole and provide advice regarding more efficient operations.

Consolidated Financial Statements

3. Consolidated Statement of Changes in Equity

(from July 1, 2020 to June 30, 2021)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings (Accumulated deficit)	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	41,440	41,396	(51,870)	(0)	30,966
Changes of items during the period					
Issuance of new shares	1,189	1,189			2,378
Net profit attributable to owners of parent			5,720		5,720
Net changes of items other than shareholders' equity					
Total changes of items during the period	1,189	1,189	5,720	–	8,098
Balance at the end of current period	42,630	42,585	(46,149)	(0)	39,065

	Accumulated other comprehensive income			Stock acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income			
Balance at the beginning of current period	3,995	(175)	3,819	–	582	35,368
Changes of items during the period						
Issuance of new shares						2,378
Net profit attributable to owners of parent						5,720
Net changes of items other than shareholders' equity	(3,995)	170	(3,825)	566	(195)	(3,454)
Total changes of items during the period	(3,995)	170	(3,825)	566	(195)	4,644
Balance at the end of current period	–	(5)	(5)	566	386	40,013

4. Notes to Consolidated Financial Statements

1. Notes on basis of preparation of consolidated financial statements

(1) Scope of consolidation

1) Number of consolidated subsidiaries: 5

Names of consolidated subsidiaries:

Mercari, Inc. (US)

Merpay, Inc.

Kashima Antlers F.C. Co., Ltd.

Souzoh, Inc.

Mercoin, Inc.

Souzoh, Inc. has been included in the scope of consolidation from the current fiscal year, following the new establishment.

Mercoin, Inc. has been included in the scope of consolidation from the current fiscal year, following the new establishment.

Origami Inc. was excluded from the scope of consolidation, following the completion of its liquidation.

2) Names of unconsolidated subsidiaries

Not applicable.

(2) Application of equity method

Not applicable.

(3) Fiscal year ends of consolidated subsidiaries

Because the fiscal year end of consolidated subsidiary Kashima Antlers F.C. Co., Ltd., is January 31, which is more than three months away from the consolidated fiscal year end, that company is consolidated based on the provisional settlement of accounts as of April 30.

When significant transactions occur at those subsidiaries between their fiscal year ends and the consolidated fiscal year end, the necessary adjustments are made in the consolidated financial statements.

The fiscal year ends of all consolidated subsidiaries other than the above coincide with the consolidated fiscal year end.

(4) Accounting policies

1) Valuation standards and methods for significant assets

Valuation standards and methods for securities

Available-for-sale securities:

Available-for-sale securities with fair value

Stated at fair value based on the market price or the like on the balance sheet date (valuation differences are directly charged or credited to net assets, and cost of securities sold is determined by the moving average method).

Available-for-sale securities without fair value

Available-for-sale securities without fair value are stated at cost using the moving average method.

- 2) Method of depreciation and amortization of significant depreciable and amortizable assets
 - a. Property and equipment

The declining balance method is applied (however, the straight line method is applied for buildings (except for facilities attached to buildings) and for facilities attached to buildings acquired on or after April 1, 2016).
 - b. Intangible assets

Software for internal use is amortized by the straight line method over its estimated useful life (5 years).

Trademark rights are amortized by the straight line method based on the effective period (20 years).
- 3) Standards for recognition of significant reserves
 - a. Allowance for doubtful accounts

For loss arising from uncollectible debt, an estimated amount of irrecoverable debt is provided as an allowance for doubtful accounts based on the historical write-off rate for ordinary receivables, and based on the recoverability of individual cases for specified receivables such as debt with a possibility of default. Note that for claims provable in bankruptcy, rehabilitation, etc., the estimated unrecoverable amount is directly deducted from the claim amount.
 - b. Provision for bonuses

For payment of employee bonuses, an allowance is provided for the portion of the total anticipated bonuses that are attributable to the current fiscal year.
 - c. Provision for point certificates

As preparation for utilization of points granted to users, the amount that is expected to be utilized in the future is provided.
 - d. Provision for share-based compensation

A provision has been made for the amount of expected monetary claims resulting from contribution in kind in the form of share issuances to Group employees and others, based on Regulations for Granting Incentives.
- 4) Other significant matters for the preparation of consolidated financial statements
 - a. Standards for translation of foreign currency-denominated assets and liabilities into Japanese yen

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the spot exchange rate on the closing date of the accounting period, with the difference arising from translation being treated as profit or loss.

Assets and liabilities of the foreign subsidiaries are translated into Japanese yen at the spot exchange rate as of the closing date of the consolidated accounting period. Revenues and expenses of foreign subsidiaries are translated into Japanese yen at the average rate of exchange during the fiscal year. Differences arising from these translations are included in foreign currency translation adjustments under the net assets section.
 - b. Accounting for consumption taxes

The tax exclusion method is applied for consumption tax and local consumption tax.

2. Notes to changes in presentation

Consolidated Statement of Income

“Consumption taxes refund,” which was included in “Other” under “Non-operating income” in the statement of income of the previous fiscal year, is separately presented from the current fiscal year because its monetary significance has increased.

“Consumption taxes refund” in the previous fiscal year was ¥7 million.

“Subsidy income,” which was included in “Other” under “Non-operating income” in the statement of income of the previous fiscal year, is separately presented from the current fiscal year because its monetary significance has increased.

“Subsidy income” in the previous fiscal year was ¥19 million.

Application of “Accounting Standard for Disclosure of Accounting Estimates”

The Group has applied the “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) from the consolidated financial statements related to the end of the current fiscal year, and provided a note on significant accounting estimates in the consolidated financial statements.

3. Notes on Accounting Estimates

Allowance for doubtful accounts

(1) Amount recorded in the consolidated financial statements for the current fiscal year

Allowance for doubtful accounts	¥2,416 million
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(2) Information on details of significant accounting estimates for identified items

1) Calculation method

For Merpay, Inc., a consolidated subsidiary of the Company, other receivable, etc. is classified into ordinary receivables (normal receivables and managed receivables) and claims provable in bankruptcy, rehabilitation, etc., depending on credit risk based on the payment status of creditors and other factors.

a. Ordinary receivables (normal receivables and managed receivables)

For normal receivables, estimated loan losses are calculated by type of receivables, using the historical collection rate.

Managed receivables for which payment has been delayed for more than a certain period are classified in terms of credit risk by type of receivables based on the delay period of debtors, etc., and the estimated loan losses are calculated using the historical collection rate in each category.

b. Claims provable in bankruptcy, rehabilitation, etc.

The remaining amount derived by deducting the expected amount of collection, which is estimated for individual claims, from the remaining balance of claims is considered as estimated loan losses.

2) Key assumptions

Changes in economic conditions, etc. as at the end of the fiscal year could affect debtors directly or indirectly. A judgment on whether or not the historical write-off rate needs to be adjusted is made to reflect these changes in assessment of other receivable, etc. In addition, the Group assumes the possibility of a decline in repayment ability of debtors due to the impact of COVID-19, but on the other hand, the collection rate is also expected to increase because of an improvement in products and operation. Therefore, allowance for doubtful accounts have been calculated based on the assumption that the expected write-off rate will not increase considerably.

3) Impact on the consolidated financial statements for the following fiscal year

Although allowance for doubtful accounts as of the end of the current fiscal year is the best estimated at this point in time, there is uncertainty in assumptions used for the estimation, and if credit risk of debtors changes due to changes in economic conditions, etc., the amounts of allowance for doubtful accounts and provision of allowance for doubtful accounts recognized in the consolidated financial statements for the next fiscal year may be affected significantly. In terms of the impact of COVID-19, it is currently difficult to accurately forecast the future spread of the disease, when the pandemic clears up and so forth. At this point in time, we deem that while the impact of COVID-19 will affect the accounting estimate including allowance for doubtful accounts, etc. to a certain extent, it will not affect the estimate significantly. However, the Company is aware of the possibility that future changes to the situation could have an impact on the consolidated financial statements for the next fiscal year and subsequent fiscal years.

4. Notes to Consolidated Balance Sheet

(1) Accumulated depreciation of property and equipment ¥1,993 million

(2) Liquidation of receivables

Of funds raised through liquidation of receivables, those which were accounted for as financial transactions are short-term borrowings of ¥19,302 million, and receivables contributed to trust to back the fundraising through liquidation of receivables are other receivable of ¥28,365 million.

5. Notes to Consolidated Statement of Changes in Equity

(1) Class and total number of issued shares as of the end of the current fiscal year

Common stock	157,807,344 shares
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(2) Class and number of shares to be delivered upon exercise of stock acquisition rights outstanding as of the end of the current fiscal year (excluding those for which the exercise period has not started)

Common stock	5,288,030 shares
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6. Notes to financial instruments

(1) Status of financial instruments

1) Company policy for financial instruments

The Group invests one-time surplus funds in short-term deposits and highly secure financial assets, and mainly uses its own capital, borrowings from financial institutions, issuance of bonds and liquidation of receivables for its financing needs.

2) Nature and extent of risks arising from financial instruments and risk management system

Trade accounts receivable and other receivable, which constitute trade receivables, are exposed to credit risks of customers and business partners. The Group mitigates such risks by monitoring and managing the payment terms and outstanding balances.

Deposits paid are exposed to credit risks of business partners. The Group mitigates such risks by monitoring and managing the outstanding balances.

The holding status of investment securities is reviewed on an ongoing basis by regularly monitoring the financial position and other aspects of issuers.

Guarantee deposits are primarily deposits paid to the Legal Affairs Bureau under the Payment Services Act and the Group believes the credit risk of these deposits is remote.

Borrowings with variable interest rates are vulnerable to risk of interest rate fluctuations.

Trade payables and borrowings are vulnerable to liquidity risk. The Group manages liquidity risk mainly by checking the cash flow on a timely basis.

3) Supplementary information on fair values of financial instruments

Fair values of financial instruments are based on the quoted price in active markets. If a quoted price is not available, fair values are based on prices that are reasonably estimated. Since variable factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value.

(2) Fair values of financial instruments

Carrying amounts, fair values, and the differences between them as of June 30, 2021 are as follows.

(Millions of yen)			
	Carrying amounts	Fair values	Differences
1) Cash on hand and in banks	171,463	171,463	–
2) Trade accounts receivable	2,413		
3) Other receivable	47,001		
Allowance for doubtful accounts (*1)	(2,416)		
	46,998	46,998	–
4) Deposits paid	6,251	6,251	–
Total assets	224,713	224,713	–
5) Short-term borrowings	19,602	19,602	–
6) Accounts payable	17,775	17,775	–
7) Accrued expenses	1,147	1,147	–
8) Income taxes payable	6,140	6,140	–
9) Deposits received	117,099	117,099	–
10) Long-term borrowings (*2)	51,547	51,545	(1)
Total liabilities	213,312	213,310	(1)

- (Notes) 1. Allowance for doubtful accounts for trade accounts receivable and other receivable have been deducted.
2. Current portion of long-term borrowings is included in long-term borrowings.

(Notes) 1. Calculation method for fair values of financial instruments

Assets

1) Cash on hand and in banks, 2) Trade accounts receivable, 3) Other receivable, and 4) Deposits paid

Because these are settled in a short period of time and their fair values approximate the carrying amounts, the Company deems their carrying amounts to be the fair values.

Liabilities

5) Short-term borrowings, 6) Accounts payable, 7) Accrued expenses, 8) Income taxes payable, and 9) Deposits received

Because these are settled in a short period of time and their fair values approximate the carrying amounts, the Company deems their carrying amounts to be the fair values.

10) Long-term borrowings (including current portion of long-term borrowings)

The fair value of long-term borrowings is calculated by applying a discount rate based on the assumed interest rate if a new borrowing contract is entered into for the same amount as the total of principal and interest. Of long-term borrowings, those with variable interest rates are calculated based on the carrying amounts as they promptly reflect market interest rates and their fair values approximate the carrying amounts.

2. Carrying amounts of financial instruments whose fair values cannot be reliably determined

(Millions of yen)

	Carrying amounts
Investment securities	215
Lease deposits	1,631
Guarantee deposits	26,767

Because it is difficult to determine the fair values of the above items due to not having their market prices, they have not been included in the main table of financial instruments above.

7. Notes to per share information

(1) Net assets per share	¥247.52
(2) Basic earnings per share	¥36.43

8. Notes to significant subsequent events

Issue of Zero Coupon Convertible Bonds

At the meeting of the Board of Directors held on June 28, 2021, the Company resolved to issue Zero Coupon Convertible Bonds (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) due in 2026 (hereinafter in Section I below, “Bonds with Stock Acquisition Rights,” with those instances referring only to bonds being “Bonds” and those instances referring only to stock acquisition rights being “Stock Acquisition Rights”) and Zero Coupon Convertible Bonds due in 2028 (hereinafter in Section II below, “Bonds with Stock Acquisition Rights,” with those instances referring only to bonds being “Bonds” and those instances referring only to stock acquisition rights being “Stock Acquisition Rights”), and payment was completed on July 14, 2021. An overview of this issue is as follows.

I. Matters relating to the Zero Coupon Convertible Bonds due in 2026

- 1 Total amount of issue: ¥25.0 billion
- 2 Price of issue (paid-in amount): 100.0% of principal amount of the Bonds (principal amount of each Bond: ¥10 million)
- 3 Price of issue (offer price): 102.5% of principal amount of the Bonds
- 4 Interest rate: The Bonds do not bear interest.
- 5 Redemption amount: 100.0% of principal amount of the Bonds
- 6 Maturity: July 14, 2026 (London time, same applies below unless indicated otherwise)
- 7 Matters related to the Stock Acquisition Rights
 - (1) Class of shares subject to the Stock Acquisition Rights
Common stock of the Company (number of shares per share unit: 100 shares)
 - (2) Total number of Stock Acquisition Rights to be issued
2,500
 - (3) Description and number of shares subject to the Stock Acquisition Rights
The number of shares of the Company’s common stock granted upon exercise of the Stock Acquisition Rights shall be the number resulting from the total principal amount of the Bonds involved in the exercise request divided by the conversion price listed in (4) below. However, any fractions of shares resulting from the exercise shall be discarded and no cash adjustment will be made.
 - (4) Amount to be paid upon exercise
 - (i) Upon the exercise of each Stock Acquisition Right, the Bond associated with the Stock Acquisition Right shall be contributed and the price for the Bond shall be equal to the principal amount of the Bond.
 - (ii) The conversion price shall be ¥9,346.

(iii) The conversion price shall be adjusted by means of the formula below in the event that the Company issues shares of common stock of the Company or disposes of shares of common stock of the Company in its possession at the paid-in amount which is below the fair value of the Company's common stock after the Bonds with Stock Acquisition Rights are issued. In the formula below, "Number of issued shares" shall mean the total number of issued shares of common stock of the Company (excluding those shares owned by the Company).

$$\text{Adjusted conversion price} = \text{Pre-adjustment conversion price} \times \frac{\text{Number of issued shares} + \frac{\text{Number of shares issued or to be disposed of} \times \text{Paid-in amount per share}}{\text{Fair values}}}{\text{Number of issued shares} + \text{Number of shares issued or to be disposed of}}$$

(5) Exercise period

The period shall be from July 28, 2021, to June 30, 2026 (local time at the location where exercise requests are received). Note, however, that certain stipulations in the issuance guidelines shall apply.

(6) Acquisition by the Company of Bonds

At any time during the period from, and including, February 14, 2026 to, and including, March 14, 2026, we may, but shall not be bound to, give Acquisition Election Notice to the Bondholders, in which event we shall acquire all of the bonds to which such conversion notice relates 35 days immediately following such Deposit Date for which falls after the Acquisition Election Notice and on or before May 19, 2026 in exchange for cash and the Company's common stock.

8 Payment date (issue date): July 14, 2021

9 Collateral and guarantee of the Bonds: The Bonds are issued without collateral or guarantee.

II. Matters relating to the Zero Coupon Convertible Bonds due in 2028

1 Total amount of issue: ¥25.0 billion

2 Price of issue (paid-in amount): 100.0% of principal amount of the Bonds (principal amount of each Bond: ¥10 million)

3 Price of issue (offer price): 102.5% of principal amount of the Bonds

4 Interest rate: The Bonds do not bear interest.

5 Redemption amount: 100.0% of principal amount of the Bonds

6 Maturity: July 14, 2028

7 Matters related to the Stock Acquisition Rights

(1) Class of shares subject to the Stock Acquisition Rights

Common stock of the Company (number of shares per share unit: 100 shares)

(2) Total number of Stock Acquisition Rights to be issued

2,500

(3) Description and number of shares subject to the Stock Acquisition Rights

The number of shares of the Company's common stock granted upon exercise of the Stock Acquisition Rights shall be the number resulting from the total principal amount of the Bonds involved in the exercise request divided by the conversion price listed in (4) below. However, any fractions of shares resulting from the exercise shall be discarded and no cash adjustment will be made.

(4) Amount to be paid upon exercise

(i) Upon the exercise of each Stock Acquisition Right, the Bond associated with the Stock Acquisition Right shall be contributed and the price for the Bond shall be equal to the principal amount of the Bond.

(ii) The conversion price shall be ¥9,346.

(iii) The conversion price shall be adjusted by means of the formula below in the event that the Company issues shares of common stock of the Company or disposes of shares of common stock of the Company in its possession at the paid-in amount which is below the fair value of the Company's common stock after the Bonds with Stock Acquisition Rights are issued. In the formula below, "Number of issued shares" shall mean the total number of issued shares of common stock of the Company (excluding those shares owned by the Company).

$$\text{Adjusted conversion price} = \text{Pre-adjustment conversion price} \times \frac{\text{Number of issued shares} + \frac{\text{Number of shares issued or to be disposed of} \times \text{Paid-in amount per share}}{\text{Fair values}}}{\text{Number of issued shares} + \text{Number of shares issued or to be disposed of}}$$

(5) Exercise period

The period shall be from July 28, 2021, to June 30, 2028 (local time at the location where exercise requests are received). Note, however, that certain stipulations in the issuance guidelines shall apply.

(6) Acquisition by the Company of Bonds

At any time during the period from, and including, February 14, 2028 to, and including, March 14, 2028, we may, but shall not be bound to, give Acquisition Election Notice to the Bondholders, in which event we shall acquire all of the bonds to which such conversion notice relates 35 days immediately following such Deposit Date for which falls after the Acquisition Election Notice and on or before May 19, 2028 in exchange for cash and the Company's common stock.

8 Payment date (issue date): July 14, 2021

9 Collateral and guarantee of the Bonds: The Bonds are issued without collateral or guarantee.

III. Use of funds

Approximately ¥50.0 billion of the proceeds from the issue of the Bonds with Stock Acquisition Rights will be allocated by June 2024 to investment funds for accelerating growth in existing businesses and creating new business opportunities, and strengthening the financial base. Specifically, the Company has made a partial early lump-sum payment of the borrowings due in or before June 2022 and paid back ¥25.0 billion on July 20, 2021. Following verification of expected investment returns, the remaining amount will be allocated to the following based on the optimal investment ratio with consideration for the market environment, competition environment, and other factors.

- Approximately ¥10.0 billion to be used in recruiting personnel for product development at Mercari, Inc. (US), and for marketing expenses aimed at expanding the business
- Approximately ¥10.0 billion to be used as working capital and other matters primarily in the credit business as a result of expanding the services of Merpay, Inc.
- Approximately ¥5.0 billion to be used as investment funds intended for the creation of new business opportunities

Non-consolidated Financial Statements

5. Non-consolidated Statement of Changes in Equity

(from July 1, 2020 to June 30, 2021)

(Millions of yen)

	Shareholders' equity					
	Capital stock	Capital surplus			Retained earnings (Accumulated deficit)	
		Legal capital reserve	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings
					Retained earnings brought forward	
Balance at the beginning of current period	41,440	41,420	0	41,420	(47,971)	(47,971)
Changes of items during the period						
Issuance of new shares	1,189	1,189		1,189		
Net profit					7,926	7,926
Net changes of items other than shareholders' equity						
Total changes of items during the period	1,189	1,189	–	1,189	7,926	7,926
Balance at the end of current period	42,630	42,609	0	42,609	(40,045)	(40,045)

	Shareholders' equity		Valuation and translation adjustments		Stock acquisition rights	Total net assets
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at the beginning of current period	(0)	34,889	3,995	3,995	–	38,884
Changes of items during the period						
Issuance of new shares		2,378				2,378
Net profit		7,926				7,926
Net changes of items other than shareholders' equity			(3,995)	(3,995)	566	(3,429)
Total changes of items during the period	–	10,304	(3,995)	(3,995)	566	6,875
Balance at the end of current period	(0)	45,194	–	–	566	45,760

6. Notes to Non-consolidated Financial Statements

1. Notes to significant accounting policies

(1) Valuation standards and methods for significant assets

Valuation standards and methods for securities

Shares of subsidiaries:

Shares of subsidiaries are stated at cost using the moving average method.

Available-for-sale securities:

Available-for-sale securities with fair value

Stated at fair value based on the market price or the like on the balance sheet date (valuation differences are directly charged or credited to net assets, and cost of securities sold is determined by the moving average method).

Available-for-sale securities without fair value

Available-for-sale securities without fair value are stated at cost using the moving average method.

(2) Method of depreciation and amortization of significant depreciable and amortizable assets

1) Property and equipment

The declining balance method is applied (however, the straight line method is applied for buildings (except for facilities attached to buildings) and for facilities attached to buildings acquired on or after April 1, 2016).

2) Intangible assets

Software for internal use

Software for internal use is amortized by the straight line method over its estimated useful life (5 years).

(3) Standards for recognition of reserves

1) Allowance for doubtful accounts

For loss arising from uncollectible debt, an estimated amount of irrecoverable debt is provided as an allowance for doubtful accounts based on the historical write-off rate for ordinary receivables, and based on the recoverability of individual cases for specified receivables such as debt with a possibility of default.

2) Provision for bonuses

For payment of employee bonuses, an allowance is provided for the portion of the total anticipated bonuses that are attributable to the current fiscal year.

3) Provision for point certificates

As preparation for utilization of points granted to users, the amount that is expected to be utilized in the future is provided.

4) Provision for share-based compensation

A provision has been made for the amount of expected monetary claims resulting from contribution in kind in the form of share issuances to Group employees and others, based on Regulations for Granting Incentives.

(4) Standards for translation of foreign currency-denominated assets and liabilities into Japanese yen

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the spot exchange rate on the closing date of the accounting period, with the difference arising from translation being treated as profit or loss.

(5) Other significant matters for the preparation of non-consolidated financial statements

Accounting for consumption taxes

The tax exclusion method is applied for consumption tax and local consumption tax.

2. Notes to changes in presentation

Non-consolidated Statement of Income

“Subsidy income,” which was included in “Other” under “Non-operating income” in the non-consolidated statement of income of the previous fiscal year, is separately presented from the current fiscal year because its monetary significance has increased.

“Subsidy income” was ¥19 million in the previous fiscal year.

3. Notes to Non-consolidated Balance Sheet

(1) Accumulated depreciation of property and equipment ¥1,672 million

(2) Contingent liabilities

The Company provides a guarantee of obligation for the guarantee contract of security deposits entered into with the financial institution of the following company and for liabilities payable to business partners.

Merpay, Inc. ¥58,000 million

(3) Monetary receivables from and payables to subsidiaries and associates

Short-term monetary receivables ¥16,231 million

Short-term monetary payables ¥2,862 million

(4) Contingent liabilities

In relation to a subsidiary in the US, the Company has pledged to overseas authorities that it will manage the businesses of this subsidiary in a sound manner as the parent company and oversee this subsidiary’s management so that the obligations borne by the subsidiary may be fulfilled.

4. Notes to Non-consolidated Statement of Income

Transactions with subsidiaries and associates

Net sales ¥400 million

Operating expenses ¥9,162 million

Transactions from non-operating transactions ¥45 million

5. Notes to Non-consolidated Statement of Changes in Equity

Class and total number of treasury stock as of the end of the current fiscal year

Common stock 2 shares

6. Notes to tax effect accounting

Components of deferred tax assets and deferred tax liabilities

	(Millions of yen)
Deferred tax assets	
Accrued enterprise tax	303
Accrued expenses	421
Depreciation and amortization	363
Loss on valuation of shares of subsidiaries and associates	22,892
Loss on devaluation of investment securities	162
Provision for bonuses	235
Provision for point certificates	77
Stock acquisition rights	164
Other	148
Subtotal deferred tax assets	<u>24,769</u>
Valuation allowance	<u>(22,372)</u>
Total deferred tax assets	<u>2,397</u>

7. Notes to related party transactions

(1) Subsidiaries and associates, etc.

Category	Name	Percentage of voting rights owning or owned	Relationship	Details of transaction	Transaction amount (Millions of yen)	Account title	Ending balance (Millions of yen)
Subsidiary	Merpay, Inc.	Directly owning 100.0%	Contracting of operations, interlocking of officers, financial assistance	Contracting of operations (Note 2)	8,612	Accounts payable	1,787
				Lending of funds	5,300	Loans receivable	300
				Collection of loans receivable	5,000		
				Receipt of interest (Note 3)	(Note 4) 10		
				Investment (Note 5)	9,800	–	–
			Guarantee of obligation (Note 6)	58,000	–	–	
Subsidiary	Kashima Antlers F.C. Co., Ltd.	Directly owning 71.1%	Interlocking of officers, advertising transactions, financial assistance	Lending of funds	1,300	Loans receivable	1,800
			Receipt of interest (Note 3)	4			

- (Notes)
1. The transaction amounts shown above do not include consumption taxes, whereas the ending balance includes consumption taxes.
 2. Transaction is carried out with the same general transaction conditions as a transaction with an independent third party.
 3. In regard to lending of funds, it is determined by taking into account market interest rates.
 4. The transaction amount represents the gross transaction amount, but is presented on a net basis after interest expense is deducted from interest income in the statement of income for the current fiscal year.
 5. In regard to underwriting for investments, the Company subscribed for all shares issued.
 6. Guarantee of obligation is provided for the guarantee contract of security deposit entered into with a financial institution of Merpay, Inc. for providing Funds Transfer Services under the Payment Services Act and for liabilities payable to business partners. The transaction amounts represent the outstanding balances of guarantees as of the end of the current fiscal year. The Company does not receive guarantee fees.

(2) Officers and individual shareholders, etc.

Category	Name	Percentage of voting rights owning or owned	Relationship	Details of transaction	Transaction amount (Millions of yen)	Account title	Ending balance (Millions of yen)
Officer	Fumiaki Koizumi	Directly (owned) 0.96%	Director of the Company	Exercise of the stock acquisition rights (Note 1)	11	–	–
Officer	Yuki Hamada	Directly (owned) 0.44%	Senior Vice President of the Company	Exercise of the stock acquisition rights (Note 2)	11	–	–
				Receipt of deposits received in relation to exercise of stock acquisition rights (Note 3)	236	Deposits received	236
Officer	Naoki Aoyagi	Directly (owned) 0.00%	Senior Vice President of the Company	Exercise of the stock acquisition rights (Note 4)	312	–	–
Officer	Hirohisa Tamonoki	Directly (owned) 0.01%	Senior Vice President of the Company	Exercise of the stock acquisition rights (Note 5)	21	–	–
Officer	Jun Yokota	Directly (owned) 0.03%	Senior Vice President of the Company	Exercise of the stock acquisition rights (Note 6)	11	–	–

- (Notes)
1. Exercise of stock acquisition rights in the current fiscal year concerning those granted pursuant to the resolution at the Board of Directors meeting held on June 24, 2016. Transaction amounts listed above are amounts paid upon exercise of stock options in the current fiscal year.
 2. Exercise of stock acquisition rights in the current fiscal year concerning those granted pursuant to the resolutions at the Board of Directors meetings held on June 24, 2016 and June 22, 2017. Transaction amounts listed above are amounts paid upon exercise of stock options in the current fiscal year.
 3. Transaction amounts listed above are the deposits received in the current fiscal year for exercising of stock acquisition rights in the next fiscal year concerning those granted pursuant to the resolution at the Board of Directors meeting held on June 22, 2017.
 4. Exercise of stock acquisition rights in the current fiscal year concerning those granted pursuant to the resolution at the Board of Directors meeting held on November 28, 2017. Transaction amounts listed above are amounts paid upon exercise of stock options in the current fiscal year.
 5. Exercise of stock acquisition rights in the current fiscal year concerning those granted pursuant to the resolutions at the Board of Directors meetings held on February 23, 2017 and June 22, 2017. Transaction amounts listed above are amounts paid upon exercise of stock options in the current fiscal year.
 6. Exercise of stock acquisition rights in the current fiscal year concerning those granted pursuant to the resolution at the Board of Directors meeting held on June 22, 2017. Transaction amounts listed above are amounts paid upon exercise of stock options in the current fiscal year.

8. Notes to per share information

Net assets per share	¥286.39
Basic earnings per share	¥50.48

9. Notes to significant subsequent events

Issue of Zero Coupon Convertible Bonds

At the meeting of the Board of Directors held on June 28, 2021, the Company resolved to issue Zero Coupon Convertible Bonds due in 2026 and Zero Coupon Convertible Bonds due in 2028, and payment was completed on July 14, 2021 (London time).

For details, please refer to “Notes to Consolidated Financial Statements, 8. Notes to significant subsequent events (Issue of Zero Coupon Convertible Bonds).”