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The 11th Annual General Meeting of Shareholders Other Matters Subject to Measures for Electronic Provision (Matters Excluded From Delivered Paper-based Documents)

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Mercari, Inc.

In accordance with the provisions of laws and regulations and the Articles of Incorporation of Mercari, Inc. (the "Company"), the above matters are excluded from the paper-based documents delivered to shareholders who have made a request for delivery of documents stating matters subject to measures for electronic provision.

Business Report

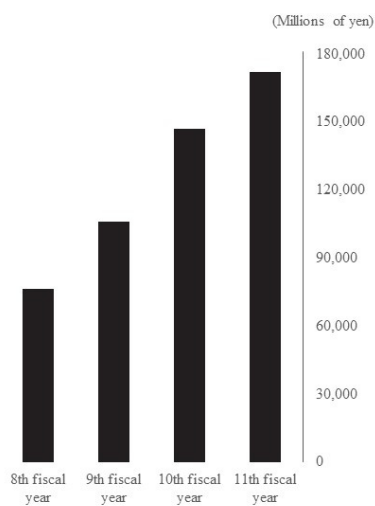
1. Assets and profit (loss)

(i) Assets and profit (loss) of the Group

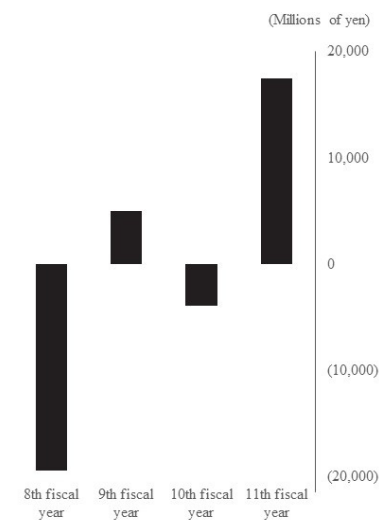
	8th fiscal year (Fiscal year ended June 2020)	9th fiscal year (Fiscal year ended June 2021)	10th fiscal year (Fiscal year ended June 2022)	11th fiscal year (Fiscal year ended June 2023)
Net sales (Millions of yen)	76,275	106,115	147,049	172,064
Ordinary profit (loss) (Millions of yen)	(19,391)	4,975	(3,896)	17,449
Net profit (loss) attributable to owners of parent (Millions of yen)	(22,772)	5,720	(7,569)	13,070
Basic earnings (loss) per share (Yen)	(147.86)	36.43	(47.34)	81.01
Total assets (Millions of yen)	198,014	262,529	339,862	415,292
Net assets (Millions of yen)	35,368	40,013	37,998	55,228
Net assets per share (Yen)	222.78	247.52	228.57	329.80

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) from the beginning of the 10th fiscal year. Assets and profit (loss) for the 10th fiscal year onward reflect the application of this accounting standard.

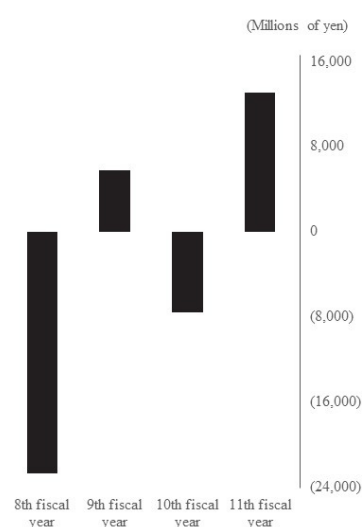
Net sales



Ordinary profit (loss)



Net profit (loss) attributable to owners of parent



(ii) Assets and profit (loss) of the Company

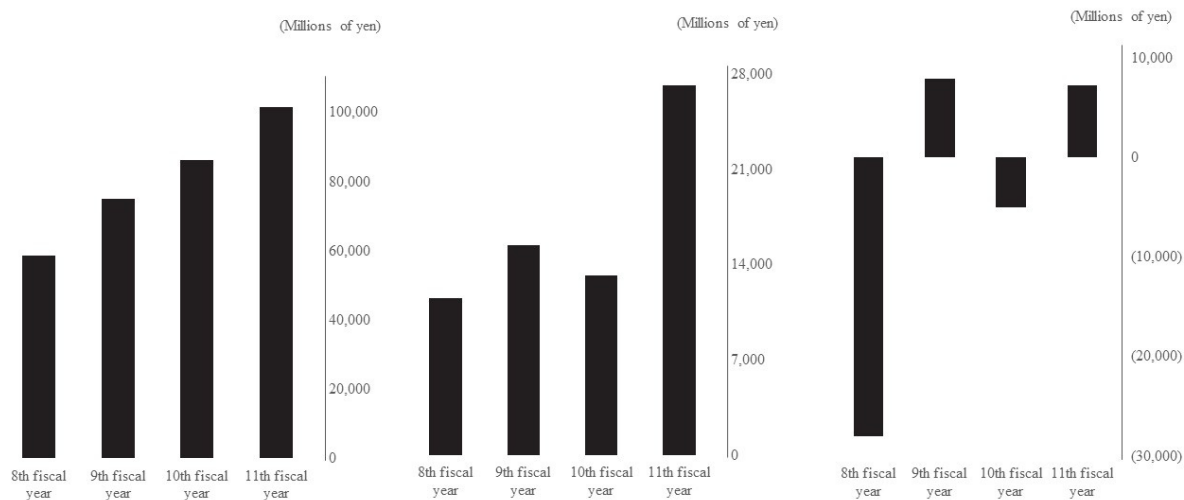
	8th fiscal year (Fiscal year ended June 2020)	9th fiscal year (Fiscal year ended June 2021)	10th fiscal year (Fiscal year ended June 2022)	11th fiscal year (Fiscal year ended June 2023)
Net sales (Millions of yen)	58,744	75,152	86,107	101,671
Ordinary profit (Millions of yen)	11,550	15,426	13,221	27,203
Net profit (loss) (Millions of yen)	(28,014)	7,926	(4,965)	7,274
Basic earnings (loss) per share (Yen)	(181.89)	50.48	(31.05)	45.09
Total assets (Millions of yen)	104,683	119,376	137,359	160,680
Net assets (Millions of yen)	38,884	45,760	45,152	55,596
Net assets per share (Yen)	249.02	286.39	275.01	335.48

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) from the beginning of the 10th fiscal year. Assets and profit (loss) for the 10th fiscal year onward reflect the application of this accounting standard.

Net sales

Ordinary profit

Net profit (loss)



2. Major business (as of June 30, 2023)

(i) Mission

The Company was established out of our founder's desire "to create a world in which people everywhere can live more prosperous lives by using the power of the internet to connect individuals and enabling them to make the most of the world's limited resources" and we have continued to grow through advanced product development utilizing technology and bold investments based on a disciplined approach. In February 2023, as we celebrated the 10th anniversary of the Company's founding, we formulated the Group mission of "Circulate all forms of value to unleash the potential in all people," which includes our belief that Mercari enables people to expand their potential, and are striving as a united group to achieve that mission. We aim to utilize advanced technology, including large language models (LLM) and blockchain technology, to provide a new user experience, such as transactions involving skills and digital assets, not only transactions for material items, and by creating an ecosystem that circulates all kinds of value, both tangible and intangible, we want to be a company that unleashes the potential in people.

(ii) Overview of services

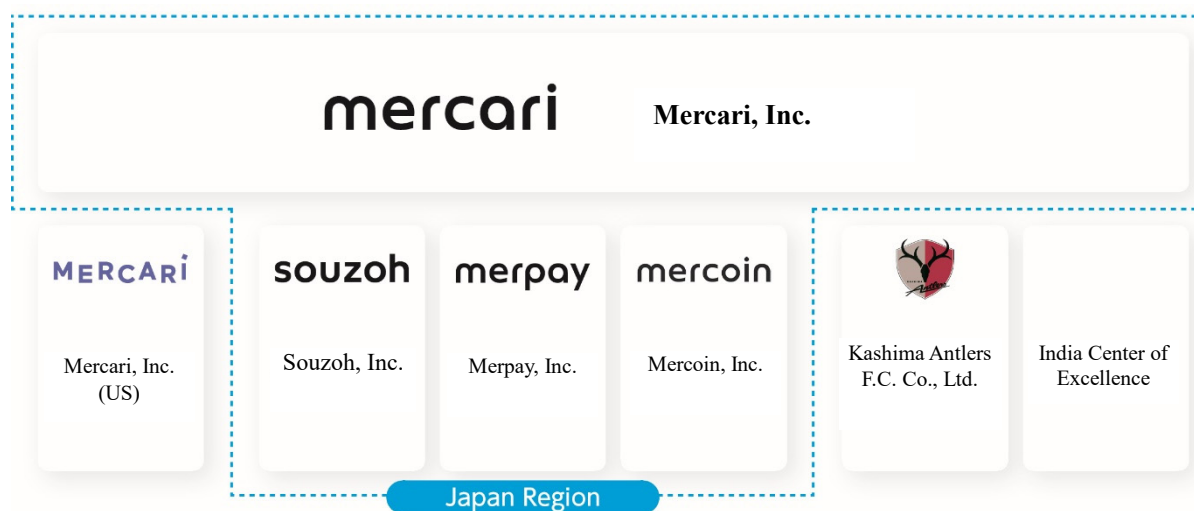
The *Mercari* service operated by the Company functions as a marketplace for consumer-to-consumer (C2C) transactions, offering users a unique and never-before-available experience by enabling anyone to readily and simply buy and sell secondhand items.

Buying and selling used items at traditional secondhand stores has various disadvantages, including time needed to physically visit the retail location, limited product availability, and lack of transparency with respect to pricing (from the perspective of both the buyer and seller given that there is an intermediary involved). The sale of secondhand items via internet auction also has disadvantages, including complexity and difficulty of listing items and time necessary to engage in the bidding process.

The *Mercari* service, on the other hand, enables anybody and everybody to readily buy and sell items using their smartphones or the website. The service also offers convenient and affordable shipping options through its alliances with shipping companies and convenience stores. In addition, both sellers and buyers are mainly individuals, allowing the service to offer anyone both the fun of easily converting their unnecessary possessions into cash and the "treasure-hunt" experience that users feel when searching for unique secondhand items. Through the prevention of fraud by requiring sellers to register their personal information (address, name, and birthdate) when they sign up, employing AI technology to automatically detect transactions that violate our terms of service, and other measures, we strive to ensure that users feel at ease using our marketplace.

(iii) Services operated by the Group

The Group consists of the Company, its consolidated subsidiaries Mercari, Inc. (US), Souzoh, Inc., Merpay, Inc., Mercoin, Inc., Kashima Antlers F.C. Co., Ltd., India Center of Excellence, and others (as of June 30, 2023). The Group has set its businesses in Japan, excluding Kashima Antlers, as the Japan Region. In addition, the explanations of the businesses in the Japan Region have been provided based on the two domains of Marketplace and Fintech.



Note On August 1, 2023, the Company conducted an absorption-type company split in which the departments, other than the business development function related to the *Mercari Shops*, operated by Souzoh, Inc. were succeeded to the Company.

In the Marketplace domain, the Mercari Japan business operates the consumer-to-consumer (C2C) marketplace app *Mercari*, on which it has been working since the Company was founded, and has also operated the business-to-consumer (B2C) marketplace app *Mercari Shops* since October 2021. These services provide a unique user experience that enables anybody to buy and sell items easily and simply, with their gross merchandise value (GMV) reaching about ¥1 trillion and their monthly active users (MAU) exceeding 22.00 million in the fiscal year ended June 30, 2023.

In the Fintech domain, the Mercari Japan business operates the *Merpay* mobile payment service. The Group has been striving to expand the business in association with the creation of new forms of credit centered on credit services, utilizing its high technological prowess and unique user and information bases of the *Mercari* service. In addition, the Group has made steady progress toward the creation of Group synergy, such as through the *Mercard* credit card that utilizes AI credit based on an individual's history of using the *Mercari* service and through launching a service that enables users to buy and sell bitcoin using sales proceeds and points.

The Mercari US business operates the marketplace app *Mercari (US)* as “the easiest and safest selling app” in order to create a marketplace where anybody can easily and safely sell a variety of items. Although growth has continued to slow down due to the impact of inflation and other factors in the challenging external environment, there has been a certain level of positive results, such as an increasing number of listed items and signs of improvement with respect to the decline in the number of transactions, as a result of initiatives to simplify the process for listing, measures to reduce the burden on buyers, etc.

3. Major offices (as of June 30, 2023)

(i) The Company

Office name	Location
Head Office	Minato-ku, Tokyo
Fukuoka Office	Hakata-ku, Fukuoka-shi, Fukuoka

(ii) Domestic subsidiaries

Company name	Location
Merpay, Inc. (Head Office)	Minato-ku, Tokyo
Kashima Antlers F.C. Co., Ltd. (Head Office)	Kashima-shi, Ibaraki
Souzoh, Inc. (Head Office)	Minato-ku, Tokyo
Mercoin, Inc. (Head Office)	Minato-ku, Tokyo

(iii) Overseas subsidiaries

Company name	Location
Mercari, Inc. (US) (Head Office)	Palo Alto, California, United States
Mercari Software Technologies India Private Limited (Head Office)	Bangalore, India

4. Employees (as of June 30, 2023)

(i) Employees of the Group

Number of employees	Increase (decrease) from previous fiscal year-end
2,101 [453]	Decrease of 108 [Decrease of 14]

(Note) The number of employees stated indicates working employees, and the average number of temporary employees in the past year is stated separately in square brackets.

(ii) Employees of the Company

Number of employees	Increase (decrease) from previous fiscal year-end	Average age	Average years of service
1,315 [271]	Increase of 83 [Decrease of 19]	35.6 years old	3.4 years

(Note) The number of employees stated indicates working employees, and the average number of temporary employees in the past year is stated separately in square brackets.

5. Major lenders (as of June 30, 2023)

(Millions of yen)

Lender	Balance of borrowings
Mizuho Bank, Ltd.	15,000
Sumitomo Mitsui Banking Corporation	10,000

(Note) Other than the above, the Group has raised funds in the amount of ¥79,121 million through liquidation of receivables.

6. Other significant matters pertaining to the current condition of the Group

Not applicable.

7. Stock acquisition rights

(1) Status of stock acquisition rights (as of June 30, 2023)

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
11th series stock acquisition rights (February 14, 2015)	2,400	Common stock 24,000	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
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)	600	Common stock 6,000	Without contribution	102	From February 14, 2018, to February 12, 2026
25th series stock acquisition rights (August 31, 2016)	500	Common stock 5,000	Without contribution	332	From September 1, 2018, to August 30, 2026
30th series stock acquisition rights (February 24, 2017)	535	Common stock 5,350	Without contribution	353	From February 25, 2019, to February 23, 2027
34th series stock acquisition rights (June 23, 2017)	135,350	Common stock 1,353,500	Without contribution	353	From June 24, 2019, to February 23, 2027
36th series stock acquisition rights (June 23, 2017)	717	Common stock 7,170	Without contribution	353	From June 23, 2017, to June 23, 2027
38th series stock acquisition rights (November 29, 2017)	302,400	Common stock 302,400	Without contribution	3,000	From November 30, 2019, to November 28, 2027
39th series stock acquisition rights (March 13, 2018)	9,500	Common stock 9,500	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)	126,582	Common stock 126,582	Without contribution	1	From June 1, 2022, to December 31, 2025
45th series stock acquisition rights (September 30, 2021)	11,104	Common stock 11,104	Without contribution	1	From March 1, 2022, to September 30, 2024
46th series stock acquisition rights (September 30, 2021)	13,391	Common stock 13,391	Without contribution	1	From March 1, 2022, to September 30, 2024
47th series stock acquisition rights (March 31, 2022)	487	Common stock 487	Without contribution	1	From September 1, 2022, to March 31, 2024
48th series stock acquisition rights (March 31, 2022)	7,222	Common stock 7,222	Without contribution	1	From September 1, 2022, to March 31, 2025
49th series stock acquisition rights (March 31, 2022)	2,354	Common stock 2,354	Without contribution	1	From September 1, 2022, to March 31, 2025

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
50th series stock acquisition rights (March 31, 2022)	1,235	Common stock 1,235	Without contribution	1	From March 1, 2023, to March 31, 2024
52nd series stock acquisition rights (September 30, 2022)	16,839	Common stock 16,839	Without contribution	1	From March 1, 2023, to September 30, 2025
53rd series stock acquisition rights (September 30, 2022)	48,600	Common stock 48,600	Without contribution	1	From March 1, 2023, to September 30, 2025
54th series stock acquisition rights (September 30, 2022)	51,585	Common stock 51,585	Without contribution	1	From March 1, 2023, to September 30, 2025
56th series stock acquisition rights (April 30, 2023)	258,040	Common stock 258,040	Without contribution	1	From September 1, 2023, to March 31, 2026
57th series stock acquisition rights (April 30, 2023)	15,089	Common stock 15,089	Without contribution	1	From September 1, 2023, to March 31, 2026
Total	1,272,938	Common stock 2,559,830	–	–	–

(2) Stock acquisition rights held by Directors and Audit and Supervisory Board Members of the Company which were issued as consideration for their performance of duties (as of June 30, 2023)

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)
34th series stock acquisition rights (June 23, 2017)	2	129,016	Common stock 1,290,160
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 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 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 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 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	2,400	Common stock 24,000
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 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) 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)
51st series stock acquisition rights (September 30, 2022)	38	58,285	Common stock 58,285
52nd series stock acquisition rights (September 30, 2022)	4	31,510	Common stock 31,510
53rd series stock acquisition rights (September 30, 2022)	16	79,397	Common stock 79,397
54th series stock acquisition rights (September 30, 2022)	11	65,160	Common stock 65,160
55th series stock acquisition rights (September 30, 2022)	42	45,404	Common stock 45,404
56th series stock acquisition rights (April 30, 2023)	214	267,679	Common stock 267,679
57th series stock acquisition rights (April 30, 2023)	3	45,269	Common stock 45,269

(Notes) 1. The conditions for exercising the 51st 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 March 1, 2023, to March 31, 2023:
a third of the total number of allotted Stock Options;
 - (ii) From September 1, 2023, to September 30, 2023:
a third of the total number of allotted Stock Options;
 - (iii) From March 1, 2024, to March 31, 2024:
a sixth of the total number of allotted Stock Options; and
 - (iv) From September 1, 2024, to September 30, 2024:
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.

2. The conditions for exercising the 52nd 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 (vi) 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 March 1, 2023, to March 31, 2023:
a fourth of the total number of allotted Stock Options;
 - (ii) From September 1, 2023, to September 30, 2023:
a fourth of the total number of allotted Stock Options;
 - (iii) From March 1, 2024, to March 31, 2024:
a sixth of the total number of allotted Stock Options;
 - (iv) From September 1, 2024, to September 30, 2024:
a sixth of the total number of allotted Stock Options;
 - (v) From March 1, 2025, to March 31, 2025:
a 12th of the total number of allotted Stock Options; and
 - (vi) From September 1, 2025, to September 30, 2025:
a 12th 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 53rd series and 54th 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 (vi) 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 March 1, 2023, to March 31, 2023:
a sixth of the total number of allotted Stock Options;
 - (ii) From September 1, 2023, to September 30, 2023:
a sixth of the total number of allotted Stock Options;
 - (iii) From March 1, 2024, to March 31, 2024:
a sixth of the total number of allotted Stock Options;
 - (iv) From September 1, 2024, to September 30, 2024:
a sixth of the total number of allotted Stock Options;
 - (v) From March 1, 2025, to March 31, 2025:
a sixth of the total number of allotted Stock Options; and
 - (vi) From September 1, 2025, to September 30, 2025:
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.
4. The conditions for exercising the 55th 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 March 1, 2023, to March 31, 2023:
a fourth of the total number of allotted Stock Options;
 - (ii) From September 1, 2023, to September 30, 2023:
a fourth of the total number of allotted Stock Options;
 - (iii) From March 1, 2024, to March 31, 2024:
a fourth of the total number of allotted Stock Options; and
 - (iv) From September 1, 2024, to September 30, 2024:
a fourth 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.
5. The conditions for exercising the 56th series and 57th 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 (vi) 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, 2023, to September 30, 2023:
a sixth of the total number of allotted Stock Options;
 - (ii) From March 1, 2024, to March 31, 2024:
a sixth of the total number of allotted Stock Options;
 - (iii) From September 1, 2024, to September 30, 2024:

- a sixth of the total number of allotted Stock Options;
 - (iv) From March 1, 2025, to March 31, 2025:
a sixth of the total number of allotted Stock Options;
 - (v) From September 1, 2025, to September 30, 2025:
a sixth of the total number of allotted Stock Options; and
 - (vi) From March 1, 2026, to March 31, 2026:
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.

(4) Other important matters regarding stock acquisition rights

The payment for bonds with stock acquisition rights of which the issuance was resolved at the Board of Directors meeting held on June 28, 2021, was completed on July 14, 2021 (London time), and the status as of June 30, 2023, 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 price 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

8. Independent Auditor

(i) Name Ernst & Young ShinNihon LLC

(ii) Amount of remuneration, etc.

	Amount of remuneration, etc. (Millions of yen)
Independent auditor's remuneration, etc. for the current fiscal year	85
Total amount of money and other financial benefits to be paid to the independent auditor by the Company and its subsidiaries	228

- (Notes)
1. In the audit agreement between the Company and the independent auditor, the Company does not keep accounts by each category of the amount of audit fees, etc. for auditing services under the Companies Act and under the Financial Instruments and Exchange Act. As the amount of auditing services cannot be practically distinguished, the Company states the total amount thereof in the amount of remuneration, etc. of the independent auditor for the current fiscal year.
 2. The Audit and Supervisory Board decided to agree on the amount of remuneration, etc. of the independent auditor after making necessary examinations of whether the content of the independent auditor's audit plan, performance of duties, and a basis for calculation of estimated remuneration are appropriate.
 3. Among major subsidiaries of the Company, Mercari, Inc. (US) and Mercari Software Technologies India Private Limited are audited by Ernst & Young LLP and S. R. Batliboi & Associates LLP, respectively.

(iii) Description of non-audit services

Non-audit services for which the Company pays remuneration to the independent auditor mainly consist of various advisory services.

(iv) Policy on decision for dismissal or non-reappointment of independent auditor

The Audit and Supervisory Board is to make decisions on the content of proposals regarding the dismissal or non-reappointment of the independent auditor that are to be submitted to a General Meeting of Shareholders if deemed necessary, particularly in the event that execution of the independent auditor's duties has been impeded.

Moreover, the Audit and Supervisory Board is to dismiss the independent auditor upon gaining unanimous consent of the Audit and Supervisory Board Members if circumstances stipulated in respective items of Article 340, paragraph (1) of the Companies Act have been deemed applicable with respect to the independent auditor. Under such circumstances, an Audit and Supervisory Board Member selected by the Audit and Supervisory Board is to report on the dismissal of the independent auditor and the grounds for dismissal at the first General Meeting of Shareholders convened subsequent to the dismissal.

(v) Summary of details of limited liability agreement

Not applicable.

(vi) Summary of details of indemnity agreement

Not applicable.

9. 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 supervises 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 mission 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 Regulations 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 Regulations for the Division of Duties, Regulations 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 the 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 the Representative Director and the 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 the reasons behind their employee evaluation, reassignment, and/or 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. to Audit and Supervisory Board Members 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 the reasons behind their employee evaluation, reassignment, and/or 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 the 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 a 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 a basic policy that it will have no association whatsoever with anti-social forces and absolutely rejects any improper solicitation. The Company has clearly stated this policy in writing and disseminates it 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 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 due to 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) Ensuring appropriateness in execution of business

By ensuring all our Directors, Vice Presidents and employees of the Group are fully aware of the Company’s mission, values, code of ethics, compliance policy, etc., the Company aims to elicit responsible conduct not compromising ethical principles from them, whereby they serve the needs of society with an awareness of being a constituent member of society. Moreover, the Company conducts training regularly, which includes e-learning, on laws and regulations, government ordinances and notices in relation to corporate activities, and internal rules and regulations, promoting understanding of their purpose and objectives, and requesting their compliance.

2) Internal audit

Internal audits are conducted by the Internal Audit Office, which is an independent organization under the direct control of the Representative Director. In the current fiscal year, with the objective of confirming the status of compliance and preventing conduct in violation of laws and regulations, the Internal Audit Office performed audits of the Company and its subsidiaries in accordance with the internal audit regulations and the internal audit schedule approved by the Board of Directors. Audit results are reported without delay to the Representative Director, the Board of Directors, and Audit and Supervisory Board.

3) Audit and Supervisory Board Members

Audit and Supervisory Board Members worked to obtain an appropriate and timely grasp of information and strengthen 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, the Audit and Supervisory Board Members, working in close collaboration with the independent auditor and person in charge of internal auditing, periodically conduct audits, verify the status of internal audits, and exchange opinions.

10. Policy on determination of dividends of surplus and others

The Group regards its efforts to return profits to shareholders while simultaneously enhancing its financial standing and securing competitive strengths as key managerial challenges. At this point in time, the Group deems that it is in the process of achieving growth and has accordingly concluded that the best means of maximizing shareholder returns is by supplementing internal reserves and channeling such funds to investment geared to expanding business and streamlining operations. As such, the Company has not made any dividend payments since it was founded, and its policy going forward shall be that of striving to supplement internal reserves for the time being. Although the policy for the future is to consider the option of returning profits to shareholders taking into account operating results achieved in respective fiscal years, at this point in time the Group has yet to make any decision on distribution of dividends.

Consolidated Financial Statements

11. Consolidated Statement of Changes in Equity

(from July 1, 2022, to June 30, 2023)

(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	44,628	44,582	(53,757)	(0)	35,453
Changes of items during the period					
Issuance of new shares	1,423	1,423			2,846
Net profit attributable to owners of parent			13,070		13,070
Net changes of items other than shareholders' equity					
Total changes of items during the period	1,423	1,423	13,070	–	15,917
Balance at the end of current period	46,052	46,005	(40,687)	(0)	51,370

	Accumulated other comprehensive income				Stock acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income			
Balance at the beginning of current period	–	–	1,303	1,303	926	314	37,998
Changes of items during the period							
Issuance of new shares							2,846
Net profit attributable to owners of parent							13,070
Net changes of items other than shareholders' equity	(0)	159	747	907	165	240	1,313
Total changes of items during the period	(0)	159	747	907	165	240	17,230
Balance at the end of current period	(0)	159	2,051	2,211	1,092	554	55,228

12. Notes to Consolidated Financial Statements

1. Notes on basis of preparation of consolidated financial statements

(1) Scope of consolidation

- 1) Number of consolidated subsidiaries: 6

Names of consolidated subsidiaries:

Mercari, Inc. (US)

Merpay, Inc.

Kashima Antlers F.C. Co., Ltd.

Souzoh, Inc.

Mercoin, Inc.

Mercari Software Technologies India Private Limited

Merlogi, Inc. became part of Mercari, Inc. through an absorption-type merger and thus was excluded from the scope of consolidation.

Basset, Inc. became part of Mercoin, Inc. through an absorption-type merger and thus was excluded from the scope of consolidation.

- 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.

Because the fiscal year-end of consolidated subsidiary Mercari Software Technologies India Private Limited is March 31, which is less than three months away from the consolidated fiscal year-end, that company is consolidated based on the financial statements as of its fiscal year-end.

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.

(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 other than shares, etc. without market prices:

Stated at fair value (valuation differences are directly charged or credited to net assets, and cost of securities sold is determined by the moving average method).

Shares, etc. without market prices:

Stated at cost using the moving average method.

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

- a. Property and equipment (except for leased assets)

The straight line method is applied.

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).

c. Leased assets

For leased assets related to finance lease transactions that do not transfer ownership, the straight line method is applied assuming the lease period as the useful life without residual value.

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) Standards for recognition of revenues and expenses

In the Marketplace domain, the Group assumes a performance obligation to provide services such as the *Mercari* marketplace, which is a platform for buying and selling items, to users. Since this performance obligation is satisfied at the point of time when delivery of goods and ratings between the seller and the buyer are completed, selling fees calculated by multiplying the transaction price by a certain rate are recognized as revenue at the said point. In addition, in delivery services accompanying Marketplace's services, the Group assumes a performance obligation to deliver goods overseas and to entrust delivery of goods to delivery firms as an agency in Japan. Because this performance obligation is satisfied at the point of time when delivery of goods between the seller and the buyer is completed, the total amount of delivery charges or the net amount after deduction of delivery charges paid to delivery firms according to the delivery size is recognized as revenue at the said point. Transaction consideration is received within one year after performance obligations are satisfied, and does not contain a significant financial component.

In the Fintech domain, the Group principally provides users with a payment service and a credit service. As the principal revenue from the payment service is received as consideration for providing a means of payment for transactions between *Merpay* users and merchants, and the satisfaction of the performance obligation for this is deemed to occur at the time the payment is determined to be settled, revenue is recognized at that time. The principal revenue from the credit service is received as consideration for providing specified amounts of payment as the system for advanced payments offered to *Merpay* users, and this consideration is interest in nature. Accordingly, such revenue is recognized in

accordance with “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019).

5) Principal method for hedge accounting

a. Method for hedge accounting

Deferred hedge accounting

b. Hedging instruments and hedged items

Hedging instruments Forward exchange contracts

Hedged items Foreign currency-denominated payables

c. Hedging policy

The Group uses forward exchange contracts for foreign currency-denominated payables and hedges the risk of fluctuations in foreign exchange rates based on the Group’s management rules, aiming to avoid the risk of fluctuations in foreign exchange rates in foreign currency-denominated transactions.

d. Method for assessing the hedge effectiveness

The Group compares the cumulative market fluctuations, or changes in cash flows, of the hedged items and hedging instruments, and assesses the hedge effectiveness based on the ratio of those fluctuations.

6) Other significant matters for the preparation of consolidated financial statements

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 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.

2. 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 ¥5,455 million

(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 debtors 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 depending on 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.

3) Impact on the consolidated financial statements for the next 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.

3. Notes to changes in presentation

Consolidated Statement of Income

“Gain on reversal of stock acquisition rights,” which was included in “Other” under “Extraordinary income” in the previous fiscal year, is separately presented from the current fiscal year because its amount exceeds 10% of total extraordinary income.

“Gain on reversal of stock acquisition rights” in the previous fiscal year was ¥1 million.

4. Additional information

The Company and some domestic consolidated subsidiaries transitioned from the non-consolidated taxation system to the group tax sharing system from the current fiscal year. Accordingly, accounting treatment and disclosure of corporation tax, local corporation tax, and tax effect accounting are conducted pursuant to “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ Practical Issues Task Force Report No. 42, August 12, 2021).

5. Notes to Consolidated Balance Sheet

(1) Accumulated depreciation of property and equipment ¥2,067 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 ¥55,954 million and long-term borrowings of ¥23,166 million, and receivables contributed to trust to back the fundraising through liquidation of receivables are other receivable of ¥105,504 million.

6. 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	162,465,598 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	1,741,780 shares
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7. 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. Derivatives are used to avoid risks as described below, and the Group has a policy of not engaging in speculative transactions.

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 Group only holds securities with high credit ratings in securities according to the Fund Management Policy and believes that the credit risk of these securities is remote.

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

Lease deposits are exposed to credit risks of lessors. The Group determines the credit status of lessors when entering lease contracts.

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, borrowings, and convertible-bond-type bonds with stock acquisition rights are vulnerable to liquidity risk. The Group manages liquidity risk mainly by checking the cash flow on a timely basis.

Derivative transactions are mainly forward exchange contracts used as hedging instruments to avoid the risk of fluctuations in foreign exchange rates in foreign currency-denominated operating transactions.

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, 2023, are as follows.

(Millions of yen)

	Carrying amounts	Fair values	Differences
Trade accounts receivable	6,374		
Other receivable	115,714		
Allowance for doubtful accounts (*2)	(4,651)		
	117,437	135,445	18,007
Lease deposits	1,407	1,344	(62)
Total assets	118,844	136,789	17,944
Long-term borrowings (*4)	52,410	52,410	–
Convertible-bond-type bonds with stock acquisition rights	50,000	38,951	(11,048)
Total liabilities	102,410	91,361	(11,048)
Derivative transactions	196	196	–

(*1) Because cash on hand and in banks, securities, deposits paid, short-term borrowings, accounts payable, accrued expenses, income taxes payable, and deposits received are cash and settled in a short period of time, and thus their fair values approximate the carrying amounts, the information is omitted.

(*2) Allowance for doubtful accounts for trade accounts receivable and other receivable have been deducted.

(*3) Because guarantee deposits are primarily deposits paid to the Legal Affairs Bureau as security deposits under the Payment Services Act, the credit risk of these deposits is remote. In addition, because guarantee deposits are financial assets that protect deposits received from users and settled in a short period of time, and thus their fair values approximate the carrying amounts, the information is omitted.

(*4) Current portion of long-term borrowings is included in long-term borrowings.

(*5) Net receivables and payables arising from derivative transactions are presented on a gross basis, and values for items that are a net payable after totaling of receivables and payables are shown in parentheses.

(*6) Carrying amounts of shares, etc. without market prices are as follows.

(Millions of yen)

	Carrying amounts
Investment securities	78

(3) Breakdown by level of fair values of financial instruments

Fair values of financial instruments are classified into the following three levels in accordance with observability and significance of inputs for fair value measurement.

Level 1 fair value: Fair values determined using quoted prices that are formed in an active market for the asset or liability whose fair values are being measured, of observable inputs for fair value measurement

Level 2 fair value: Fair values determined using inputs for fair value measurement other than Level 1 inputs, of observable inputs for fair value measurement

Level 3 fair value: Fair values determined using unobservable inputs for fair value measurement

If multiple inputs that have significant impact on fair value measurement are used, the fair value is classified into the lowest priority level of fair value measurement in which each input belongs.

1) Financial instruments recorded at fair value on the consolidated balance sheet

Current fiscal year (As of June 30, 2023)

(Millions of yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Derivative transactions	–	196	–	196

2) Financial instruments other than financial instruments recorded at fair value on the consolidated balance sheet

Current fiscal year (As of June 30, 2023)

(Millions of yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Trade accounts receivable and other receivable	–	–	135,445	135,445
Lease deposits	–	1,344	–	1,344
Long-term borrowings	–	52,410	–	52,410
Convertible-bond-type bonds with stock acquisition rights	–	38,951	–	38,951

(Note) Explanation of valuation techniques and inputs for fair value measurement used to measure fair values

Trade accounts receivable and other receivable

Fair values of receivables for fixed-amount payments (receivables for which there is a fixed-amount payment commission on the principal) that are included in trade accounts receivable and other receivable are based on the present value of the future cash flows based on the estimated collectable amount classified by user, discounted using the risk-free interest rate, and credit risk is taken into account on the basis of the future cash flows. The credit risk, etc. are classified as Level 3 fair value because they are unobservable. As for delinquent receivables, etc., the estimated uncollectible amount is calculated in consideration of the collectability. Therefore, their fair values approximate the amounts calculated by deducting the write-off amounts from the amounts of receivables, and these amounts are shown as the fair values.

In addition, as for those trade accounts receivable and other receivable which are settled in a short period of time, because their fair values approximate their carrying amounts, the fair values are based on the carrying amounts.

Lease deposits

Fair values of lease deposits are determined using the present value of the refund amount based on the agreed period, discounted using the risk-free interest rate, and are classified as Level 2 fair value.

Long-term borrowings

In terms 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.

Those with fixed interest rates are calculated by discounting the total amount of principal and interest at an interest rate that would be charged for similar new loans, and their fair values are classified as Level 2 fair value.

Convertible-bond-type bonds with stock acquisition rights

Fair values of convertible-bond-type bonds with stock acquisition rights are based on market prices. However, since they are not necessarily traded in active markets, their fair values are classified as Level 2 fair value.

Derivative transactions

Fair values of forward exchange contracts are determined using the fair values provided by financial institutions, etc., and are classified as Level 2 fair value.

8. Notes to per share information

(1) Net assets per share	¥329.80
(2) Basic earnings per share	¥81.01
(3) Diluted earnings per share	¥77.36

9. Notes to revenue recognition

(1) Information on disaggregation of revenue from contracts with customers

(Millions of yen)

Major services	Japan	Overseas	Total
Marketplace	101,714	44,440	146,155
Fintech	20,485	–	20,485
Others	5,423	–	5,423
Total	127,623	44,440	172,064

(Note) “Net sales” of ¥172,064 million recorded in the consolidated statement of income is mainly “revenue recognized from contracts with customers.” Revenue recognized from other sources is financial revenue principally arising from credit services. Because its amounts are insignificant, it is included in information on disaggregation of revenue from contracts with customers for disclosure.

(2) Information that forms a basis for understanding revenue from contracts with customers

The information is provided in “(4) Standards for recognition of revenues and expenses” under “(4) Accounting policies” of “1. Notes on basis of preparation of consolidated financial statements.”

(3) Information on the relation between satisfaction of performance obligations based on contracts with customers and cash flows arising from the contracts, and amount and timing of revenue that is expected to be recognized in and after the next fiscal year from contracts with customers that existed in the current fiscal year

1) Balance of contract liabilities

(Millions of yen)

Contract liabilities (beginning balance)	2,560
Contract liabilities (ending balance)	2,749

Contract liabilities are recorded in “other current liabilities” in the consolidated balance sheet. Contract liabilities are mainly advances received from customers. Contract liabilities are reversed upon the recognition of revenue.

Of the revenue amount recognized in the current fiscal year, the amount included in the beginning balance of contract liabilities was ¥2,560 million.

2) Transaction price allocated to the remaining performance obligations

The Group does not have any significant transactions for which the initially expected contractual period exceeds one year. In addition, there are no significant amounts of consideration arising from contracts with customers that were not included in transaction prices. A practical expedient has been applied to the notes regarding the transaction price allocated to the remaining performance obligations, and this information is not included in the notes for contracts for which the initially expected contractual period is within one year.

10. Notes to significant subsequent events

Not applicable.

Non-consolidated Financial Statements

13. Non-consolidated Balance Sheet

(as of June 30, 2023)

		(Millions of yen)	
Item	Amount	Item	Amount
ASSETS		LIABILITIES	
Current assets	124,113	Current liabilities	42,148
Cash on hand and in banks	101,445	Trade accounts payable	5
Trade accounts receivable	8,507	Current portion of long-term borrowings	15,880
Merchandise	11	Accounts payable	13,545
Prepaid expenses	1,230	Accrued expenses	629
Other receivable	10,548	Income taxes payable	6,355
Short-term loans receivable	1,849	Deposits received	757
Other current assets	519	Provision for bonuses	1,869
Non-current assets	36,566	Provision for point certificates	562
Property and equipment	1,051	Provision for share-based compensation	209
Buildings	217	Other current liabilities	2,333
Tools, furniture and fixtures	444	Non-current liabilities	62,934
Other	388	Long-term borrowings	12,530
Intangible assets	74	Convertible-bond-type bonds with stock acquisition rights	50,000
Software	74	Other non-current liabilities	404
Investments and other assets	35,440	Total liabilities	105,083
Investment securities	43	NET ASSETS	
Shares of subsidiaries and associates	31,857	Shareholders' equity	54,346
Deferred tax assets	2,167	Capital stock	46,052
Lease deposits	1,370	Capital surplus	46,031
Other assets	0	Legal capital reserve	46,031
		Other capital surplus	0
		Retained earnings (Accumulated deficit)	(37,736)
		Other retained earnings (Accumulated deficit)	(37,736)
		Retained earnings brought forward (Accumulated deficit)	(37,736)
		Treasury stock	(0)
		Valuation and translation adjustments	158
		Deferred gains or losses on hedges	158
		Stock acquisition rights	1,092
Total assets	160,680	Total net assets	55,596
		Total liabilities and net assets	160,680

14. Non-consolidated Statement of Income

(from July 1, 2022, to June 30, 2023)

(Millions of yen)

Item	Amount	
Net sales		101,671
Cost of sales		14,959
Gross profit		86,712
Selling, general and administrative expenses		59,452
Operating profit		27,259
Non-operating income		
Interest income	7	
Foreign exchange gain	33	
Fiduciary obligation fee for subsidiaries and associates	51	
Other	24	118
Non-operating expenses		
Interest expense	149	
Other	25	174
Ordinary profit		27,203
Extraordinary income		
Gain on reversal of stock acquisition rights	2	2
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	11,634	
Loss on devaluation of investment securities	269	
Loss on cancellation of leases	519	
Cancellation penalty	114	
Other	66	12,604
Net profit before income taxes		14,600
Income taxes - current	7,955	
Income taxes - deferred	(628)	7,326
Net profit		7,274

15. Non-consolidated Statement of Changes in Equity

(from July 1, 2022, to June 30, 2023)

(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 (Accumulated deficit)	Total retained earnings (Total accumulated deficit)
Balance at the beginning of current period	44,628	44,607	0	44,607	(45,011)	(45,011)
Changes of items during the period						
Issuance of new shares	1,423	1,423		1,423		
Net profit					7,274	7,274
Net changes of items other than shareholders' equity						
Total changes of items during the period	1,423	1,423	–	1,423	7,274	7,274
Balance at the end of current period	46,052	46,031	0	46,031	(37,736)	(37,736)

	Shareholders' equity		Valuation and translation adjustments		Stock acquisition rights	Total net assets
	Treasury stock	Total shareholders' equity	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at the beginning of current period	(0)	44,225	–	–	926	45,152
Changes of items during the period						
Issuance of new shares		2,846				2,846
Net profit		7,274				7,274
Net changes of items other than shareholders' equity			158	158	165	323
Total changes of items during the period	–	10,120	158	158	165	10,444
Balance at the end of current period	(0)	54,346	158	158	1,092	55,596

16. 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 other than shares, etc. without market prices:

Stated at fair value (valuation differences are directly charged or credited to net assets, and cost of securities sold is determined by the moving average method).

Shares, etc. without market prices:

Stated at cost using the moving average method.

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

1) Property and equipment (except for leased assets)

The straight line method is applied.

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) Leased assets

For leased assets related to finance lease transactions that do not transfer ownership, the straight line method is applied assuming the lease period as the useful life without residual value.

(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 recognition of revenues and expenses

In the Marketplace domain, the Company assumes a performance obligation to provide services such as the *Mercari* marketplace, which is a platform for buying and selling items, to users. Since this performance obligation is satisfied at the point of time when delivery of goods and ratings between the seller and the buyer are completed, selling fees calculated by multiplying the transaction price by a certain rate are recognized as revenue at the said point. In addition, in delivery services accompanying Marketplace's services, the Company assumes a performance obligation to entrust delivery of goods to delivery firms as an agency. Because this performance obligation is satisfied at the point of time when delivery of goods between the seller and the buyer is completed, the net amount after deduction of delivery charges paid to delivery firms according to the delivery size is recognized as revenue at the said point. Transaction consideration is received within one year after performance obligations are satisfied, and does not contain a significant financial component.

(5) Principal method for hedge accounting

1) Method for hedge accounting

Deferred hedge accounting

2) Hedging instruments and hedged items

Hedging instruments Forward exchange contracts

Hedged items Foreign currency-denominated payables

3) Hedging policy

The Company uses forward exchange contracts for foreign currency-denominated payables and hedges the risk of fluctuations in foreign exchange rates based on the Group's management rules, aiming to avoid the risk of fluctuations in foreign exchange rates in foreign currency-denominated transactions.

4) Method for assessing the hedge effectiveness

The Company compares the cumulative market fluctuations, or changes in cash flows, of the hedged items and hedging instruments, and assesses the hedge effectiveness based on the ratio of those fluctuations.

(6) 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.

2. Notes to changes in presentation

Non-consolidated Statement of Income

"Gain on reversal of stock acquisition rights," which was included in "Other" under "Extraordinary income" in the previous fiscal year, is separately presented from the current fiscal year because its amount exceeds 10% of total extraordinary income.

"Gain on reversal of stock acquisition rights" in the previous fiscal year was ¥1 million.

3. Notes to Non-consolidated Balance Sheet

(1) Accumulated depreciation of property and equipment ¥1,917 million

(2) Guarantee obligations

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. ¥74,883 million

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

Short-term monetary receivables ¥20,814 million

Short-term monetary payables ¥5,502 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

Operating expenses ¥12,673 million

Transactions from non-operating transactions ¥59 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 103 shares

6. Notes to tax effect accounting

Components of deferred tax assets and deferred tax liabilities

	(Millions of yen)
Deferred tax assets	
Loss on valuation of shares of subsidiaries and associates	29,695
Excess of depreciation and amortization	498
Provision for bonuses	403
Accrued expenses	392
Accrued enterprise tax	375
Stock acquisition rights	330
Loss on devaluation of investment securities	243
Provision for point certificates	172
Other	135
Subtotal deferred tax assets	<u>32,247</u>
Valuation allowance	<u>(30,020)</u>
Total deferred tax assets	2,226
Deferred tax liabilities	
Deferred gains or losses on hedges	<u>(58)</u>
Total deferred tax liabilities	<u>(58)</u>
Net deferred tax assets	2,167

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	Mercari, Inc. (US)	Directly owning 100.0	Interlocking of officers, financial assistance	Investment	6,042	–	–
Subsidiary	Merpay, Inc.	Directly owning 100.0	Contracting of operations, interlocking of officers, financial assistance	Contracting of operations (Note 1)	10,765	Accounts payable	2,207
				Guarantee of obligation (Note 2)	74,883	–	–
Subsidiary	Kashima Antlers F.C. Co., Ltd.	Directly owning 71.2	Interlocking of officers, advertising transactions, financial assistance	Lending of funds Receipt of interest (Note 3)	– 7	Short-term loans receivable	1,800
Subsidiary	Mercoin, Inc.	Directly owning 100.0	Financial assistance	Investment	3,800	–	–

- (Notes)
1. Transaction is carried out with the same general transaction conditions as a transaction with an independent third party.
 2. 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.
 3. In regard to lending of funds, it is determined by taking into account market interest rates.

(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	Shintaro Yamada	Directly (owned) 24.12	Representative Director of the Company	Exercise of the stock acquisition rights (Note 1)	182	–	–
Officer	Fumiaki Koizumi	Directly (owned) 0.94	Director of the Company	Exercise of the stock acquisition rights (Note 2)	11	–	–
Officer	Naoki Aoyagi	Directly (owned) 0.18	Senior Vice President of the Company	Exercise of the stock acquisition rights (Note 3)	600	–	–

- (Notes) 1. 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.
2. 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.
3. 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 November 28, 2017, and September 25, 2020. Transaction amounts listed above are amounts paid upon exercise of stock options in the current fiscal year.

8. Notes to per share information

- | | |
|--------------------------------|---------|
| (1) Net assets per share | ¥335.48 |
| (2) Basic earnings per share | ¥45.09 |
| (3) Diluted earnings per share | ¥43.05 |

9. Notes to revenue recognition

Information that forms a basis for understanding revenue from contracts with customers

The information is provided in “(4) Standards for recognition of revenues and expenses” of “1. Notes to significant accounting policies.”

10. Notes to significant subsequent events

Not applicable.

Audit Reports

17. Independent Auditor's Audit Report on the Consolidated Financial Statements

(English translation)

Independent Auditor's Report

August 23, 2023

To the Board of Directors
Mercari, Inc.

Ernst & Young ShinNihon LLC
Tokyo Office, Japan
Tomoka Nemoto
Certified Public Accountant
Designated and Engagement Partner
Keiji Tanaka
Certified Public Accountant
Designated and Engagement Partner
Naoki Tokita
Certified Public Accountant
Designated and Engagement Partner

Audit opinion

Pursuant to Article 444, paragraph (4) of the Companies Act, we have audited the consolidated financial statements (the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in equity, and the notes to consolidated financial statements) of Mercari, Inc. (the "Company") for the fiscal year of the Company, which spanned from July 1, 2022, to June 30, 2023.

In our opinion, the above consolidated financial statements fairly present, in every material aspect, the financial position and results of operations of the Group composed of Mercari, Inc. and its consolidated subsidiaries for the relevant term of the consolidated financial statements, in accordance with the business accounting standards generally accepted in Japan.

Basis for audit opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in "The responsibility of independent auditors for the audit of the consolidated financial statements" section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information comprises the business report and the supplementary schedules thereto. Management is responsible for the preparation and disclosure of the other information. Meanwhile, Audit and Supervisory Board Members and the Audit and Supervisory Board are responsible for overseeing Directors' execution of duties, as they relate to the design and operation of reporting processes for the other information.

Our audit opinion on the consolidated financial statements does not cover such other information, and we do not provide an opinion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to look over the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained over the course of our audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement in this other information, we are required to report that fact.

We have nothing to report regarding the other information.

Responsibilities of management, Audit and Supervisory Board Members, and the Audit and Supervisory Board for the consolidated financial statements

The responsibility of management is to prepare consolidated financial statements in accordance with business accounting standards generally accepted in Japan and present appropriate accounting information. This responsibility includes the establishment and operation of internal controls deemed necessary by management for the preparation of consolidated financial statements, free of material misstatement due to fraud or error, and the presentation of appropriate accounting information.

In preparing the consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the consolidated financial statements with the assumption of the Group's ability to continue as a going concern and disclosing matters related to going concern, as required by the business accounting standards generally accepted in Japan.

Audit and Supervisory Board Members and the Audit and Supervisory Board are responsible for overseeing the Directors' performance of duties within the maintenance and operation of the financial reporting process.

The responsibility of independent auditors for the audit of the consolidated financial statements

Our responsibilities are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion on the consolidated financial statements, based on our audit, from an independent point of view. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the consolidated financial statements.

In accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Selecting audit procedures to be applied is at the discretion of the auditor. Obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider, in making those risk assessments, internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used by management and their method of application, as well as the reasonableness of accounting estimates by management and related notes thereto.
- Conclude on the appropriateness of management's use of the going concern basis for preparing the consolidated financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related notes to the consolidated financial statements or, if the notes to the consolidated financial statements on material uncertainty are inadequate, to express a qualified opinion with exceptions on the consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation of the consolidated financial statements and the notes thereto are in accordance with the business accounting standards generally accepted in Japan, as well as evaluate the overall presentation, structure, and content of the consolidated financial statements, including the related notes thereto, and whether the consolidated financial statements fairly represent the underlying transactions and accounting events.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries to express an opinion on the consolidated financial statements. We are

responsible for the direction, supervision, and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Board Members and the Audit and Supervisory Board regarding the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit, and other matters required by auditing standards.

We also provide the Audit and Supervisory Board Members and the Audit and Supervisory Board with a statement that we have complied with the ethical requirements in Japan regarding independence that are relevant to our audit of the financial statements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

Interests in the Company

Our firm and engagement partners have no interest in the Company and its consolidated subsidiaries, which shall be disclosed pursuant to the provisions of the Certified Public Accountants Act.

18. Independent Auditor's Audit Report on the Non-consolidated Financial Statements

(English translation)

Independent Auditor's Report

August 23, 2023

To the Board of Directors
Mercari, Inc.

Ernst & Young ShinNihon LLC
Tokyo Office, Japan
Tomoka Nemoto
Certified Public Accountant
Designated and Engagement Partner
Keiji Tanaka
Certified Public Accountant
Designated and Engagement Partner
Naoki Tokita
Certified Public Accountant
Designated and Engagement Partner

Audit opinion

Pursuant to Article 436, paragraph (2), item (i) of the Companies Act, we have audited the non-consolidated financial statements (the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in equity, the notes to non-consolidated financial statements, and the supplementary schedules (collectively, the "non-consolidated financial statements, etc.)) of Mercari, Inc. (the "Company") for the 11th fiscal year of the Company, which spanned from July 1, 2022, to June 30, 2023.

In our opinion, the above non-consolidated financial statements, etc. fairly present, in every material aspect, the financial position and results of operations of the Company for the relevant term of the non-consolidated financial statements, etc., in accordance with the business accounting standards generally accepted in Japan.

Basis for audit opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in "The responsibility of independent auditors for the audit of the non-consolidated financial statements, etc." section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the non-consolidated financial statements, etc. in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information comprises the business report and the supplementary schedules thereto. Management is responsible for the preparation and disclosure of the other information. Meanwhile, Audit and Supervisory Board Members and the Audit and Supervisory Board are responsible for overseeing Directors' execution of duties, as they relate to the design and operation of reporting processes for the other information.

Our audit opinion on the non-consolidated financial statements, etc. does not cover such other information, and we do not provide an opinion on the other information.

In connection with our audit of the non-consolidated financial statements, etc., our responsibility is to look over the other information and, in doing so, consider whether the other information is materially inconsistent with the non-consolidated financial statements, etc. or our knowledge obtained over the course of our audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement in this other information, we are required to report that fact.

We have nothing to report regarding the other information.

Responsibilities of management, Audit and Supervisory Board Members, and the Audit and Supervisory Board for the non-consolidated financial statements, etc.

The responsibility of management is to prepare non-consolidated financial statements, etc. in accordance with business accounting standards generally accepted in Japan and present appropriate accounting information. This responsibility includes the establishment and operation of internal controls deemed necessary by management for the preparation of non-consolidated financial statements, etc., free of material misstatement due to fraud or error, and the presentation of appropriate accounting information.

In preparing the non-consolidated financial statements, etc., management is responsible for assessing whether it is appropriate to prepare the non-consolidated financial statements, etc. with the assumption of the Company's ability to continue as a going concern and disclosing matters related to going concern, as required by the business accounting standards generally accepted in Japan.

Audit and Supervisory Board Members and the Audit and Supervisory Board are responsible for overseeing the Directors' performance of duties within the maintenance and operation of the financial reporting process.

The responsibility of independent auditors for the audit of the non-consolidated financial statements, etc.

Our responsibilities are to obtain reasonable assurance about whether the non-consolidated financial statements, etc. as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion on the non-consolidated financial statements, etc. based on our audit from an independent point of view. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the non-consolidated financial statements, etc.

In accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Selecting audit procedures to be applied is at the discretion of the auditor. Obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider, in making those risk assessments, internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the non-consolidated financial statements, etc. is not expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used by management and their method of application, as well as the reasonableness of accounting estimates by management and related notes thereto.
- Conclude on the appropriateness of management's use of the going concern basis for preparing the non-consolidated financial statements, etc. and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related notes to the non-consolidated financial statements, etc. or, if the notes to the non-consolidated financial statements, etc. on material uncertainty are inadequate, to express a qualified opinion with exceptions on the non-consolidated financial statements, etc. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the presentation of the non-consolidated financial statements, etc. and the notes thereto are in accordance with the business accounting standards generally accepted in Japan, as well as evaluate the overall presentation, structure, and content of the non-consolidated financial statements, etc., including the related notes thereto, and whether the non-consolidated financial statements, etc. fairly represent the underlying transactions and accounting events.

We communicate with the Audit and Supervisory Board Members and the Audit and Supervisory Board regarding the planned scope and timing of the audit and significant audit findings, including any significant

deficiencies in internal control that we identify during our audit, and other matters required by auditing standards.

We also provide the Audit and Supervisory Board Members and the Audit and Supervisory Board with a statement that we have complied with the ethical requirements in Japan regarding independence that are relevant to our audit of the financial statements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

Interests in the Company

Our firm and engagement partners have no interest in the Company which shall be disclosed pursuant to the provisions of the Certified Public Accountants Act.

19. Audit and Supervisory Board's Audit Report

(English translation)

Audit Report

Regarding the execution of duties by the Directors for the 11th fiscal year from July 1, 2022, to June 30, 2023, we have prepared this Audit Report upon deliberation based on the audit reports prepared by each Audit and Supervisory Board Member and hereby report as follows:

1. Auditing methods used by Audit and Supervisory Board Members and the Audit and Supervisory Board, and details of audit
 - (1) The Audit and Supervisory Board specified audit policies, assigned duties to each Audit and Supervisory Board Member, and received reports from each Audit and Supervisory Board Member on the status of implementation and results of audit, as well as received reports from the Directors, etc. and the independent auditor on the status of the performance of their duties and asked them for explanations as necessary.
 - (2) In conformity with the auditing standards stipulated by the Audit and Supervisory Board, and in accordance with auditing policies and the assignment of duties, each Audit and Supervisory Board Member strived to achieve effective communication with the Directors, Internal Audit Department, and other employees, collected information, and improved the audit environment. In addition, each Audit and Supervisory Board Member conducted an audit according to the following methods.
 - (i) Each Audit and Supervisory Board Member attended the meetings of the Board of Directors and other important meetings, received reports from the Directors and employees, etc. about the status of the performance of their duties, obtained explanations as necessary, reviewed important approval documents, and conducted investigations on the status of the business operations and assets at the head office and major offices. With respect to subsidiaries, we worked to facilitate communication and exchange information with Directors, Audit and Supervisory Board Members, and other relevant personnel of the subsidiaries, and received business reports from the subsidiaries as necessary.
 - (ii) In regard to the internal control system (systems necessary for ensuring that the performance of duties by the Directors conforms with laws and regulations and the Articles of Incorporation, as described in the Company's business report, and other items necessary for ensuring proper business conduct by a corporate group formed by the stock company and its subsidiaries making up the systems put in place based on content of resolutions made by the Board of Directors and the resolutions themselves concerning the development of systems prescribed in Article 100, paragraphs (1) and (3) of the Regulation for Enforcement of the Companies Act), Audit and Supervisory Board Members received reports periodically from the Directors and employees, etc. concerning its construction and operation, and as necessary asked for explanations and expressed opinions.
 - (iii) In addition to monitoring and verifying whether the independent auditor kept its independent position and whether it performed proper audit, we received reports from the independent auditor concerning the performance of its duties, and requested additional explanation as necessary. Moreover, we were informed of the arrangement of the systems for ensuring that the performance of independent auditors is being carried out correctly (matters stipulated in the items of Article 131 of the Regulation on Accounting of Companies) in accordance with the Quality Control Standards for Audits (Business Accounting Council) from the independent auditor and requested explanations as necessary.

In accordance with the procedures mentioned above, we reviewed the business report and the supplementary schedules thereto, the non-consolidated financial statements (the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in equity, and the notes to non-consolidated financial statements) and the supplementary schedules thereto and the consolidated financial statements (the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in equity, and the notes to consolidated financial statements) for the current fiscal year.

2. Results of audit

(1) Results of audit of business report and other relevant documents

- (i) The business report and the supplementary schedules present fairly the financial condition of the Company in conformity with related laws and regulations and the Articles of Incorporation.
- (ii) Regarding the execution of duties by the Directors, there were no instances of misconduct or material matters in violation of laws and regulations, nor of the Articles of Incorporation.
- (iii) The resolution of the Board of Directors regarding the internal control system is fair and reasonable. There are no matters requiring additional comment regarding the contents of the business report on such internal control and the execution of duties by the Directors.

(2) Results of audit of the non-consolidated financial statements and the supplementary schedules

The auditing methods and results of the independent auditor, Ernst & Young ShinNihon LLC, are fair and reasonable.

(3) Results of audit of the consolidated financial statements

The auditing methods and results of the independent auditor, Ernst & Young ShinNihon LLC, are fair and reasonable.

August 24, 2023

Audit and Supervisory Board, Mercari, Inc.

Mayumi Tochinoki [Seal]

Standing Audit and Supervisory Board Member

Fumiyuki Fukushima [Seal]

Standing Audit and Supervisory Board Member

(Outside Audit and Supervisory Board Member)

Daiken Tsunoda [Seal]

Outside Audit and Supervisory Board Member