Annual Securities Report

Fiscal Year Ended June 30, 2023

Mercari, Inc.
and its Subsidiaries

English Translation

This is a partial translation of the Japanese original report (Yukashoken-Hokokusho) issued on September 28, 2023 for reference purposes only. The Japanese original report has been prepared based on information gathered at the time of its preparation and is not in any way intended as a commitment to future implementation. In the event of any discrepancy, the original release in Japanese shall prevail.

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(1) Summary of consolidated financial data

Term		7th fiscal year	8th fiscal year	9th fiscal year	10th fiscal year	11th fiscal year
Year ended		Year ended June 30, 2019	Year ended June 30, 2020	Year ended June 30, 2021	Year ended June 30, 2022	Year ended June 30, 2023
Net sales	(Millions of yen)	51,683	76,275	106,115	147,049	172,064
Ordinary profit (loss)	(Millions of yen)	(12,171)	(19,391)	4,975	(3,896)	17,449
Net profit (loss) attributable to owners of parent	(Millions of yen)	(13,764)	(22,772)	5,720	(7,569)	13,070
Comprehensive income	(Millions of yen)	(14,098)	(18,981)	1,699	(6,331)	13,823
Net assets	(Millions of yen)	50,936	35,368	40,013	37,998	55,228
Total assets	(Millions of yen)	163,685	198,014	262,529	339,862	415,292
Net asset per share	(Yen)	337.88	222.78	247.52	228.57	329.80
Basic earnings (loss) per share	(Yen)	(94.98)	(147.86)	36.43	(47.34)	81.01
Diluted earnings per share	(Yen)	–	–	35.15	–	77.36
Equity ratio	(%)	31.1	17.6	14.9	10.8	12.9
Return on equity	(%)	–	–	15.5	–	28.9
Price earnings ratio	(Times)	–	–	161.95	–	41.46
Net cash provided by (used in) operating activities	(Millions of yen)	(7,289)	12,533	3,367	(26,217)	(36,883)
Net cash provided by (used in) investing activities	(Millions of yen)	(2,805)	(2,653)	6,907	(671)	(632)
Net cash provided by (used in) financing activities	(Millions of yen)	32,200	465	19,773	62,065	26,839
Cash and cash equivalents at the end of period	(Millions of yen)	130,774	141,008	171,463	211,406	202,047
Number of employees [Separately, average number of temporary employees]	(Persons)	1,826 [221]	1,792 [402]	1,752 [286]	2,209 [467]	2,101 [453]

(Notes)
1. Information on diluted earnings per share is omitted because, although potential shares exist for the 7th fiscal year, 8th fiscal year, and 10th fiscal year, the recorded figures were losses.
2. Return on equity is omitted for the 7th fiscal year, 8th fiscal year, and 10th fiscal year due to the recording of net losses attributable to owners of parent in those periods.
3. The price earnings ratio is omitted for the 7th fiscal year, 8th fiscal year, and 10th fiscal year due to the recording of net losses attributable to owners of parent in those periods.
4. The number of employees stated indicates working employees, and the average number of temporary employees during the year is stated separately in square brackets.
5. The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) since the beginning of the 10th fiscal year. Key financial data for the 10th fiscal year and subsequent fiscal years reflects the application of this accounting standard.

(2) Summary of financial data of the company submitting this report

Term		7th fiscal year	8th fiscal year	9th fiscal year	10th fiscal year	11th fiscal year
Year ended		Year ended June 30, 2019	Year ended June 30, 2020	Year ended June 30, 2021	Year ended June 30, 2022	Year ended June 30, 2023
Net sales	(Millions of yen)	46,254	58,744	75,152	86,107	101,671
Ordinary profit	(Millions of yen)	7,090	11,550	15,426	13,221	27,203
Net profit (loss)	(Millions of yen)	(5,046)	(28,014)	7,926	(4,965)	7,274
Capital stock	(Millions of yen)	40,110	41,440	42,630	44,628	46,052
Shares issued	(Shares)	150,755,347	156,150,364	157,807,344	160,813,967	162,465,598
Net assets	(Millions of yen)	60,242	38,884	45,760	45,152	55,596
Total assets	(Millions of yen)	125,742	104,683	119,376	137,359	160,680
Net asset per share	(Yen)	399.61	249.02	286.39	275.01	335.48
Dividends per share [Interim dividends per share]	(Yen)	– [–]	– [–]	– [–]	– [–]	– [–]
Basic earnings (loss) per share	(Yen)	(34.82)	(181.89)	50.48	(31.05)	45.09
Diluted earnings per share	(Yen)	–	–	48.71	–	43.05
Equity ratio	(%)	47.9	37.1	37.9	32.2	33.9
Return on equity	(%)	–	–	18.9	–	14.7
Price earnings ratio	(Times)	–	–	116.88	–	74.50
Dividend payout ratio	(%)	–	–	–	–	–
Number of employees [Separately, average number of temporary employees]	(Persons)	1,178 (174)	1,090 (277)	1,060 (204)	1,232 (290)	1,315 (271)
Total shareholder return	(%)	63.0	73.4	130.1	43.0	74.1
[Comparative benchmarks: TOPIX]	(%)	[91.8]	[94.6]	[120.5]	[118.8]	[149.3]
Highest share price	(Yen)	4,975	3,530	6,400	7,390	3,519
Lowest share price	(Yen)	1,704	1,557	3,370	1,850	1,885

(Notes)
1. Information on diluted earnings per share is omitted because, although potential shares exist for the 7th fiscal year, 8th fiscal year, and 10th fiscal year, the recorded figures were losses.
2. Return on equity is omitted for the 7th fiscal year, 8th fiscal year, and 10th fiscal year due to the recording of net losses in those periods.
3. The price earnings ratio is omitted for the 7th fiscal year, 8th fiscal year, and 10th fiscal year due to the recording of a loss in those periods.
4. The dividend per share and dividend payout ratio are omitted due to dividends not being paid.
5. The number of employees stated indicates working employees, and the average number of temporary employees during the year is stated separately in square brackets.
6. The highest and lowest share prices are for the Mothers section of the Tokyo Stock Exchange up to April 3, 2022, for the Growth section of the Tokyo Stock Exchange between April 4, 2022, and June 6, 2022, and for the Prime section of the Tokyo Stock Exchange from June 7, 2022, onward.
7. The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) since the beginning of the 10th fiscal year. Key financial data for the 10th fiscal year and subsequent fiscal years reflects the application of this accounting standard.

2 History

Month/Year	Overview
Feb. 2013	Founded Kouzoh, Inc. with a capital of ¥20 million in Roppongi, Minato-ku, Tokyo
July 2013	Launched the *Mercari* C2C marketplace
Nov. 2013	Renamed company Mercari, Inc.
Jan. 2014	Founded US subsidiary Mercari, Inc. (US)
Sept. 2014	Launched the *Mercari* C2C marketplace in the US
Oct. 2014	Started charging fees proportionate to the value of merchandise traded at the *Mercari* C2C marketplace
Sept. 2015	Founded domestic subsidiary Souzoh, Inc. (former entity) (In July 2019, started liquidation proceedings for the subsidiary after the resolution on dissolution. The proceedings were completed in November 2019.)
Nov. 2015	Founded UK subsidiary Mercari Europe Ltd.
Jan. 2016	Launched anonymous shipping service for the *Mercari* C2C marketplace
Mar. 2016	Launched classifieds service app *Mercari Atte* (In May 2018, the service was discontinued.)
Apr. 2016	Founded UK subsidiary Merpay Ltd. (In June 2019, started liquidation proceedings for the subsidiary after the resolution on dissolution. In July 2019, all shares were transferred, and in April 2022, the proceedings were completed.)
Oct. 2016	Started charging fees proportionate to the value of merchandise traded at the *Mercari* (US) C2C marketplace
Feb. 2017	Zawatt Inc. became a wholly owned subsidiary (In May 2017, the subsidiary disappeared in an absorption-type merger with the Company as a surviving company.)
Mar. 2017	UK subsidiary Mercari Europe Ltd. launched the *Mercari* C2C marketplace (In March 2019, the service was discontinued.)
May 2017	Launched C2C marketplace for books, CDs, and DVDs *Mercari Kauru* (In December 2018, the feature was transitioned to *Mercari* and the service was discontinued.)
July 2017	Launched live video streaming service *Mercari Channel* (In July 2019, the service was discontinued.)
Aug. 2017	Launched C2C marketplace for brand name items *Mercari Maisonz* (In August 2018, the feature was transitioned to *Mercari* and the service was discontinued.)
Nov. 2017	Founded domestic subsidiary Merpay, Inc. Launched immediate purchase service *Mercari NOW* (In August 2018, the service was discontinued.)
Feb. 2018	Launched bike share service *Merchari* in Fukuoka-shi, Fukuoka (In June 2019, the business was succeeded to neuet, Inc.)
Apr. 2018	Launched skill share service *teacha* (In August 2018, the service was discontinued.)
June 2018	Listed on the Mothers section of the Tokyo Stock Exchange
July 2018	Founded domestic subsidiary Merpay Connect, Inc. (In June 2019, the subsidiary was absorbed and merged by Merpay, Inc.)
Nov. 2018	Michael Inc. became a wholly owned subsidiary (In June 2020, all shares were transferred.)
Feb. 2019	Domestic subsidiary Merpay, Inc. launched the *Merpay* mobile payment service
Aug. 2019	Acquired shares of Kashima Antlers F.C. Co., Ltd., which then became a subsidiary
Sept. 2019	Launched *Mercari Workshops*, where participants learn how to use *Mercari*
Feb. 2020	Domestic subsidiary Merpay, Inc., acquired shares of Origami Inc., which then became a wholly owned second-tier subsidiary (In March 2021, started liquidation proceedings for the second-tier subsidiary after the resolution on dissolution. In June 2021, the proceedings were completed.) Began a business partnership with NTT DOCOMO, INC.
July 2020	Launched *Merpay Smart Payments* (fixed-amount payment) in the *Merpay* mobile payment service
Oct. 2020	Started levying a payment fee at *Mercari* (US)
Jan. 2021	Founded domestic subsidiary Souzoh, Inc. (new entity)
Mar. 2021	The *Merpay* mobile payment service launched the virtual card service, which can be used to make payments to online merchants
Apr. 2021	Founded domestic subsidiary Mercoin, Inc.
July 2021	Domestic subsidiary Mercoin, Inc., acquired shares of Basset Inc., which then became a wholly owned second-tier subsidiary (In June 2023, the second-tier subsidiary disappeared in an absorption-type merger with the domestic subsidiary Mercoin as a surviving company.)
Sept. 2021	Mercari (US) launched deferred payment service
Oct. 2021	Domestic subsidiary Souzoh, Inc., launched *Mercari Shops*, which enables users to open online stores on the *Mercari* marketplace Founded domestic subsidiary Merlogi, Inc. (In January 2023, the subsidiary disappeared in an absorption-type merger with the Company as a surviving company.)
Dec. 2021	Established ESG Committee to advise the Senior Executive Committee
May 2022	Launched the Mercari Price & Volume Index
June 2022	Changed listing on the Tokyo Stock Exchange to the Prime Market segment Established Indian subsidiary Mercari Software Technologies India Private Limited
Nov. 2022	Domestic subsidiary Merpay, Inc., launched the *Mercard* credit card, which can be used and managed within the *Mercari* app
Feb. 2023	Formulated the new Group mission of “Circulate all forms of value to unleash the potential in all people”
Mar. 2023	Domestic subsidiary Mercoin, Inc. started offering a service for trading bitcoin on *Mercari*
Aug. 2023	Conducted an absorption-type company split in which the departments, other than the business development function related to *Mercari Shops*, operated by domestic subsidiary Souzoh, Inc., were succeeded to the Company
Sept. 2023	Made the transition from a company with an audit and supervisory board to a Company with Three Committees (Nominating Committee, Compensation Committee, and Audit Committee)

3 Business Activities

Mission

The Company was established out of its 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. It has continued to grow through advanced product development utilizing technology and bold investments based on a disciplined approach. In February 2023, celebrating the 10th anniversary of its founding, the Company formulated the Group mission of "Circulate all forms of value to unleash the potential in all people," which includes its belief that Mercari enables people to expand their potential, and now strives as a united group to achieve that mission. The Company aims to utilize advanced technology, including large language models (LLM) and blockchain technology, to provide a new user experience, such as transactions involving not only material items but also skills and digital assets, and by creating an ecosystem that circulates all kinds of value, both tangible and intangible, the Company strives to be a business entity that unleashes the potential in people.

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 its terms of service, and other measures, the Company strives to ensure that users feel at ease using its marketplace.

Services operated by the Group

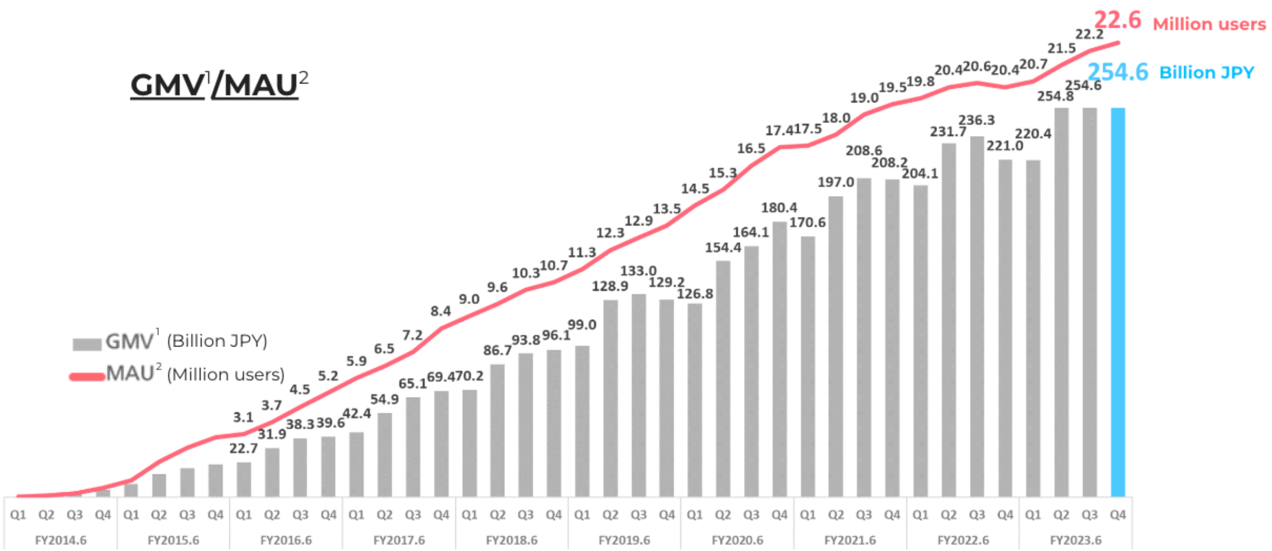
The Group consists of the Company, its consolidated subsidiaries Mercari, Inc. (US), Souzoh, Inc., Merpay, Inc., Mercoin, Inc., Kashima Antlers F.C. Co., Ltd., India Center of Excellence, and others (as of June 30, 2023). The Group has set its businesses in Japan, excluding Kashima Antlers, as the Japan 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 *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 *Mercari Shops* since October 2021. These services provide a unique user experience that enables anybody to buy and sell items easily and simply, with the platform's gross merchandise value (GMV) reaching about ¥1 trillion and 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 their sales balance 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 such things as initiatives to simplify the process for listing and measures to reduce the burden on buyers.

Past growth of Marketplace

Since the launch of the service in 2013, *Mercari* has continued to grow mainly in Japan. MAU has exceeded 22 million, and the annual GMV has reached ¥1 trillion.

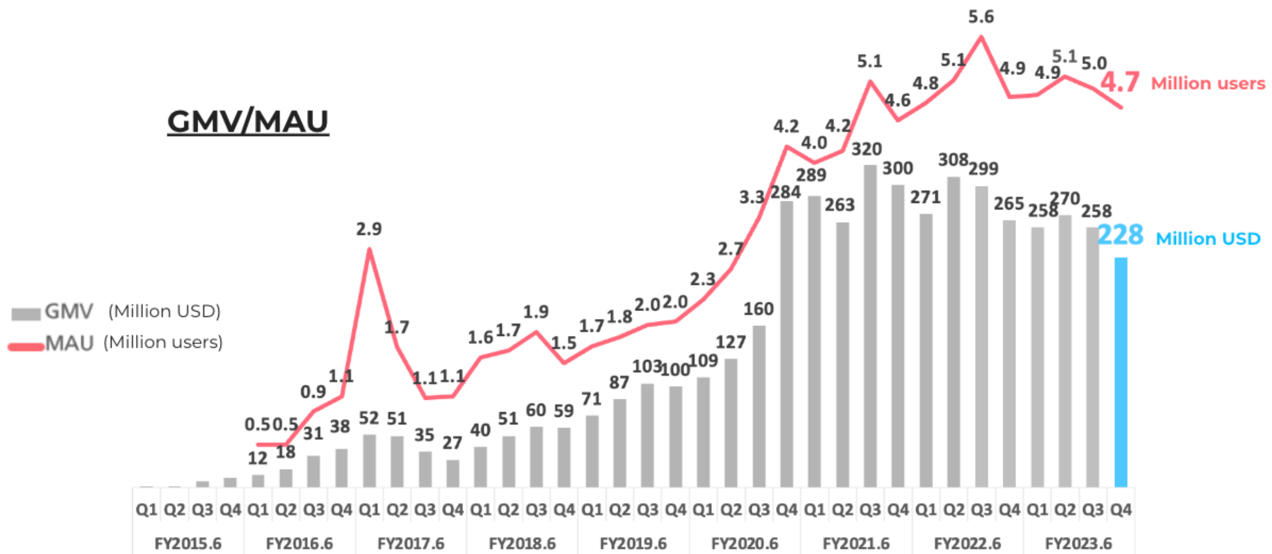


(Notes) 1. GMV (Gross Merchandise Value) represents the total value of C2C and B2C transactions.

2. MAU (Monthly Active Users) is defined as the quarterly average number of registered users who accessed the *Mercari* service via the app or website at least once during a given month.

Past growth of Mercari US

Since the brand redesign in 2018, Mercari US is recognized and reputed as the "easiest and safest selling app," with a focus on increasing service convenience and striving to become a critical part in efforts to create a circular economy in the US, too.



4 Information on subsidiaries and associates

Name	Location	Capital stock	Main business activities	Percentage of voting rights owning or owned (%)	Description of relationship
(Consolidated subsidiaries) Mercari, Inc. (US) (Notes 1, 4)	Palo Alto, California, United States	US$633,511 thousand	Planning, development, and operation of the *Mercari* (US) C2C marketplace	100.0	Interlocking of officers, consignment of development operations to the Company
Merpay, Inc. (Notes 1, 4)	Minato-ku, Tokyo	¥100 million	Planning, development, and operation of funds transfer service and other finance-related businesses	100.0	Interlocking of officers, contracting of operations
Kashima Antlers F.C. Co., Ltd.	Kashima-shi, Ibaraki	¥2,257 million	1. Management of the Kashima Antlers professional soccer club 2. Planning and management of soccer matches, other sports matches, and other events 3. Management of a soccer stadium and other sports facilities, etc.	71.2	Interlocking of officers, advertising transactions, lending of funds
Souzoh, Inc.	Minato-ku, Tokyo	¥100 million	Planning, development, and operation of the *Mercari Shops* e-commerce platform	100.0	Business alliances
Mercoin, Inc.	Minato-ku, Tokyo	¥100 million	Planning, development, and operation of services related to cryptoassets and blockchain technologies	100.0	Interlocking of officers
Mercari Software Technologies India Private Limited (Note 3)	Bangalore, India	INR31 million	Development of internet services	100.0	Contracting of development operations

(Notes)
1. This is a list of specified subsidiaries.
2. There are no companies that submit a securities registration statement or securities report.
3. The percentage of voting rights owning for Mercari Software Technologies India Private Limited includes the indirect ownership of 0.1% by Souzoh, Inc.
4. For Mercari, Inc. (US) and Merpay, Inc., the percentage of net sales (excluding internal sales between consolidated companies) to consolidated net sales exceeded 10%.

Mercari, Inc. (US)	(1)	Net sales	¥44,440 million
	(2)	Ordinary loss	¥8,473 million
	(3)	Net loss	¥8,661 million
	(4)	Net assets	¥9,172 million
	(5)	Total assets	¥26,506 million
Merpay, Inc.	(1)	Net sales	¥31,195 million
	(2)	Ordinary profit	¥3,041 million
	(3)	Net profit	¥6,422 million
	(4)	Net assets	¥16,744 million
	(5)	Total assets	¥273,756 million

5 Employees

(1) Consolidated companies

As of June 30, 2023

Name of segment	Number of employees (Persons)
Japan Region	1,464 [368]
US	260 [8]
Reportable segment total	1,724 [376]
Other	98 [51]
Corporate (shared)	279 [26]
Total	2,101 [453]

(Notes) 1. The number of employees stated indicates working employees, and the average number of temporary employees during the year is stated separately in square brackets.
2. The number of employees indicated as Corporate (shared) belongs to administrative divisions, which cannot be classified in any specific segment.

(2) Company submitting this report

As of June 30, 2023

Number of employees (Persons)	Average age (Years old)	Average years of service	Average annual salary (Thousands of yen)
1,315 [271]	35.6	3.4	10,357

Name of segment	Number of employees (Persons)
Japan Region	1,002 [243]
US	34 [2]
Reportable segment total	1,036 [245]
Other	– [–]
Corporate (shared)	279 [26]
Total	1,315 [271]

(Notes) 1. The number of employees stated indicates working employees, and the average number of temporary employees during the year is stated separately in square brackets.
2. Average annual salary includes bonuses and surplus wages.
3. The number of employees indicated as Corporate (shared) belongs to administrative divisions, which cannot be classified in any specific segment.

(3) Labor union

No labor union has been formed within the Group, but relations between labor and management are stable.

(4) Percentage of women in management positions, percentage of male employees who take childcare leave, and difference in pay between male and female employees

Company submitting this report

Percentage of women in management positions (%) (Note 1)	Percentage of male employees who take childcare leave, etc. (%) (Note 2)	Difference in pay between male and female employees (%) (Note 3)
20.4	91.4	37.5

(Notes) 1. The percentage was calculated pursuant to the provisions of the Act on the Promotion of Women's Active Engagement in Professional Life (Act No. 64 of 2015).
2. The percentage of male employees who take childcare leave, etc. defined under Article 71-4, item (1) of the Ordinance for Enforcement of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Ordinance of the Ministry of Labour No. 25 of 1991) was calculated pursuant to the provisions of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76 of 1991). Accordingly, spouse's childbirth leave was excluded.
3. The percentage was calculated based only on regular employees. Regular employees includes members seconded to subsidiaries.
Calculation period: Year ended June 30, 2023 (from July 1, 2022, to June 30, 2023)
Pay: includes basic salary, bonuses, and overtime pay and excludes pre-listing stock options, incentives for employee stock ownership plans, commutation allowances, and others.
Regular employees: conforms to the principle for calculating the "difference in pay between male and female employees" under the Act on the Promotion of Women's Active Engagement in Professional Life.
The gap was found to be mainly due to the distribution of grades among men and women. Multiple regression analysis revealed that there existed an "unexplained pay gap" of roughly 7%. In addition, the results of analyzing the causes of the pay gap revealed that the factor that had the most impact on it was the differences in the salaries of men and women upon entering the company (at the time of joining the company, there existed an unexplained pay gap of roughly 9%).
Based on the above analysis results, the Company implemented the following measures.
- Started periodic monitoring of unexplained gender pay gap using multiple regression analysis
- In August 2023, implemented corrective action for the pay gap and reduced the unexplained pay gap found from 7.0% to 2.5%

Details are disclosed in the "FY2023.6 Impact Report."

4. Information on consolidated subsidiaries is omitted as they are not obliged to disclose information under the provisions of the Act on the Promotion of Women’s Active Engagement in Professional Life (Act No. 64 of 2015) and the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76 of 1991).

II. Business Overview

1 Management policy, management environment, issues to address, etc.

Forward-looking statements in this document are based on the views of Group management as of the end of the fiscal year under review.

(1) Basic corporate management policy

Under its mission, “Circulate all forms of value to unleash the potential in all people,” Mercari Group provides services such as *Merpay*, *Mercari* (US), and its main *Mercari* C2C marketplace app, which enables users to use their smartphone or computer to readily buy and sell items that they no longer need.

(2) Target management indicators

Mercari Group is actively expanding its operations in Japan and the US. Although the stage of growth varies by region, the Group is working to enhance its corporate value through the use of indicators such as gross merchandise value (GMV), growth in net sales, MAU(Note), and brand awareness.

(Note) MAU (Monthly Active Users) is defined as the quarterly average number of registered users who accessed the *Mercari* service via app or website at least once during a given month.

(3) Medium- to long-term management strategies

The formulation of the Group’s management strategy over the medium-to-long term is based on the following strengths.
The Group’s strengths:

1) Being a pioneer in C2C marketplaces, driving the expansion of the secondhand market

By providing a C2C marketplace that is enjoyable, easy to use, and safe and secure, the Group has built a marketplace app and driven the expansion of the entire secondhand market in Japan beyond solely online stores and internet auction sites. According to a survey conducted by the Company in 2023, more people with experience using marketplace apps and auction sites had used Mercari’s services than any similar service, as a result of which the Company has won a level of support that exceeds that of other companies’ services. Mercari Group is confident that by leveraging the dominant position the Group enjoys as a pioneer in C2C marketplaces, the Group is well-placed to benefit from the strong growth in the secondhand market.

Furthermore, there is also strong demand for the buying and selling of secondhand items by individuals in overseas markets, such as the US, and the Group will use the *Mercari* platform to contribute to the growth of the secondhand market.

2) Utilizing high-value-added data from a highly engaged user base

By making the platform simple and easy to use for both buyers and sellers, and by providing an enjoyable and immersive user experience, *Mercari* has achieved a high level of user engagement. The MAU for *Mercari* in the fourth quarter of the fiscal year ended June 30, 2023, was 22.6 million, and according to a survey conducted by the Company in 2023, the Company’s services are ranked highest in terms of customer satisfaction for ease of selling and ease of use among four companies operating marketplace apps and auction sites. Through its highly engaged user base, the Company is able to collect large quantities of highly usable data, such as information on user transactions and user transaction ratings. By utilizing this data and technologies, including artificial intelligence (AI), which is a focus area for the Company, the Company will seek to raise purchase conversion rates by proposing items that match the tastes of each buyer, to raise listing conversion rates by proposing prices at which items will sell easily, and to improve the efficiency of customer support.

The Company also makes efforts to improve user experience of its existing services, for example, by granting credit depending on the user’s history on the *Mercari* service as part of the credit services provided by the *Merpay* mobile payment service, and to develop new services expected to contribute to the Group’s growth.

3) Building greater loyalty through networking that is unique to C2C platforms

Mercari is a C2C marketplace that exhibits strong network effects. As a result of an increase in the number of sellers and listings, the numbers of buyers and purchases will also increase due to the overall increase in the number of items that people want to buy. This in turn results in higher item liquidity and even further increases in the number of sellers and listings. Furthermore, many buyers and sellers are frequent users of the *Mercari* service, which encourages self-sustaining growth through highly connected features. Such network effects lead to the building of greater loyalty among buyers and sellers, and continuous participation in transactions by repeat users contributes significantly to the growth in gross merchandise value. Moreover, the accumulation of a user’s past transaction ratings not only enables other users to conduct transactions with confidence but also works to prevent them from switching to rival services as a result of competition to acquire users. In addition, the Company has focused on building greater loyalty through the improvement of user experience, for example by launching a loyalty program based on the usage of *Mercard*, the Company’s credit card, in the fiscal year ended June 30, 2023.

4) Leveraging a business model that achieves high profitability

The Group has already achieved high profitability in the Marketplace domain. Once a certain scale is reached, Mercari’s business model enables costs to be controlled appropriately when the business expands further. Specifically, advertising expenses constitute a significant proportion of the Company’s cost structure, but although advertising expenses as a percentage of net sales generally rise in the initial growth stage for mobile apps, it becomes possible to control the percentage accounted for by advertising expenses as the user base expands and stabilizes. This is what enables the high profitability achieved by *Mercari*.

Moreover, the Group has strived to create a second pillar of revenue, for example by enhancing the revenue base as credit services have grown in the Fintech domain.

5) Organizational and corporate cultures that support value creation
To achieve the Group mission "Circulate all forms of value to unleash the potential in all people," the Company prioritizes creating a borderless organization where talent from all over the world can thrive. The Company believes that its diverse members with a wide variety of backgrounds are the source of value creation and has promoted D&I in line with a major policy of "Unleashing the Potential in Diverse Talent Worldwide." As of June 30, 2023, the Company has talented members from about 50 countries and territories, and diverse talent has thrived, especially in the engineering organization with no less than 50% of its engineering-related jobs being filled by members of non-Japanese citizenship.
The Company has three core values acting as guidelines for what it needs to do to achieve its mission: "Go Bold," "All for One," and "Be a Pro." All decisions, ranging from those about daily work to management decisions, are made based on these three values.

Management strategy details

In the fiscal year ended June 30, 2023, the Group worked on business management that takes into consideration the balance between growth and profitability by building a lean business foundation globally. As a result, the Group achieved record-high net sales and operating profit on a consolidated basis. In the Marketplace domain, full-year gross merchandise value (GMV) reached a scale of ¥1 trillion. For the Fintech domain, this year the Group embarked on several initiatives in order to create Group synergy that will support future growth, such as launching new services (*Mercard* and a bitcoin trading service).

Furthermore, in February 2023, which marked the Group's 10th anniversary, the Group announced the new Group mission of "Circulate all forms of value to unleash the potential in all people." In anticipation of the next ten years, the Company will solidify the Group's revenue base by developing a source of revenue second to Marketplace, continue to make aggressive investments aiming for the disruptive growth of its business in a disciplined manner, and aim for reacceleration of growth by maximizing Group synergies and creating new businesses. In addition, as activities important to achieve these goals, the Company will promote D&I to develop a diverse organization that meets a global standard where talent from all over the world can thrive and continue to strengthen technological infrastructures.

1) Marketplace: achieving GMV growth of 10% or higher
In the Marketplace domain, the Company will strive to achieve GMV growth of 10% or higher and adjusted operating margin of 30–40% through marketing investments and product developments as well as expansion of new domains.
- Areas of enhancement
  To push forward the growth of the Marketplace domain, the Company will commit to continual product development and effective marketing investments as well as expansion of areas of enhancement for GMV growth. Crossborder transactions, which the Company started in 2019, have experienced steady growth as evidenced by the increase in the number of partners contributing to GMV growth. In the fiscal year ending June 30, 2024, the Company will aim to further accelerate this growth by selecting regions to be covered, increasing the number of proxy purchasing partners, and commencing crossborder transactions of items on *Mercari Shops.*
  Also, the Company will aim to contribute to GMV by tailoring the UI and UX of focus categories (categories that have expanding markets and greater potential to grow), launching marketing campaigns in focus categories linked to increases in demand owing to seasonality and other factors, acquiring corporate merchants selling reused and outlet products that have a strong affinity with *Mercari*, and expanding B2C transactions through enhancement of listing features such as API integration.

2) Fintech: aiming to enhance Group synergy by increasing *Mercard* holders
In the Fintech domain, the Company will promote the enhancement of Group synergy and the revenue base in anticipation that the domain will become the second pillar of revenue of the Group, while also contributing to the maximization of *Mercari*'s GMV.
- Enhancement of Group synergy
  The Company will enhance Group synergy by focusing on acquiring *Mercard* holders and encouraging further use and will strengthen UX through such features as enabling payment using bitcoin on *Mercari* to boost transactions.
- Enhancement of the revenue base
  The Company will strive to grow its credit service and maintain and raise the collection rate by continually improving the accuracy of its unique AI credit system and strengthening collection actions, and to promote more diverse ways of financing for a sound financial foundation to enhance the revenue base.

3) Mercari US: aiming to get back on track for growth
Mercari US will aim to get back on track for growth by focusing on refining the product and efficient marketing to strengthen retention of existing users.
- Getting back on track for growth
  Mercari US is working to improve the product to strengthen retention of existing users while adapting to significant changes in the external environment, such as inflation, and building a lean management foundation. In addition, Mercari US aims to get back on track for growth by achieving incomparable ease of use, building a community-type marketplace, developing new transaction methods, and implementing measures to encourage people in Gen Z who are expected to drive future growth to use the service.

(4) Challenges facing the Company

1) Ensuring the safety and soundness of Mercari Group services

The increasing prevalence of e-commerce services and social media, as well as ever-more sophisticated fraudulent use associated therewith, appear to be giving rise to further mounting societal demands with respect to maintaining the safety of internet-based services. In order to provide a platform for carrying out safe and secure transactions, the Group continually engages in efforts that involve safeguarding personal information and combating infringement of intellectual property rights, which it regards as its highest priority in securing the safety and soundness of Mercari Group's various services.

2) Developing talent

Mercari considers investment in talent to be the most important factor in achieving its Group mission. This is because Mercari believes that each and every employee growing and fully demonstrating Mercari's values is the shortest path to achieving its mission.

As a major policy, the Group has set one of its material topics as "Unleashing the Potential in Diverse Talent Worldwide." With regard to "diverse talent worldwide," the diversity of its members is the source of its creativity. Mercari's policy is to acquire professional talent around the world with market-competitive compensation levels and provide training through continuous opportunities for learning. To unleash this potential, Mercari has mechanisms to constantly encourage bold challenges. All members continually ask themselves, "Are we taking on bold challenges to achieve the mission?" and "Are we quickly learning from our failures and successes?" based on Mercari's values in various situations. The Group has also established mechanisms that increase opportunities for bold promotions and appointments for employees that demonstrate high levels of value-embodying behavior, and realize competitive compensation that is not based on individual backgrounds.

Going forward, Mercari will give further balance to investment decisions that maximize the total amount of long-term value displayed by its employees.

3) Enhancing technological strengths

As a provider of online services, the Group recognizes the importance of managing its business in a manner that ensures consistent operations of systems involved in providing its services. The Group will continue to pursue initiatives to ensure system stability, for example by reinforcing server equipment to better handle the increasing traffic to its services associated with the increasing number of listed items, and also by installing parallel processing systems in order to distribute processing loads.

In addition, the Group will focus on investing in innovative technologies to further improve the user experience. For instance, the Group will promote efforts geared toward heightening service convenience as well as maintaining and enhancing service safety and soundness through AI and machine learning technologies using massive data sets encompassing past transaction histories and rating information. Furthermore, the Group will work to enhance its technological strengths in part by investing in innovative technologies such as LLM and blockchain.

4) Addressing global expansion

The Group has also promoted global expansion such as by entering the US market in 2014 and by starting crossborder sales of items listed on the *Mercari* marketplace in Japan to overseas buyers in 2019. Through steady growth of the *Mercari* marketplace provided in the US, and demand from overseas users for crossborder sales, the Group believes that there are potential business opportunities extending before it in areas that it has not yet entered. In 2022, the Group invested in Beebs SAS, which plans, develops, and operates *Beebs*, a marketplace app dedicated to babies and kids' goods that conducts business in France and Belgium. While continuing to place the highest priority on the further expansion of the *Mercari* marketplace in the US, the Group's policy is to move forward while monitoring the business environment and timing in order to take on the challenge of entering other countries when the opportunity arises.

5) Strengthening corporate governance

The Group has set forth the mission of improving enterprise value through working to enhance its supervising management function and its internal control function while practicing strict compliance management as its basic policy on corporate governance. In order to meet the trust of all stakeholders, going forward, the Group will work to improve the efficiency and transparency of management, maximize enterprise value, and achieve sustainable growth and development.

The Company made the transition to a Company with Three Committees (Nominating Committee, Compensation Committee, and Audit Committee), subject to approval at the 11th Annual General Meeting of Shareholders held on September 28, 2023. By further clarifying the separation of the supervisory and executive functions through this transition, the Group will establish a structure that strengthens the supervisory function of the Board of Directors while enabling the executive function to make prompt and resolute decisions and promote business.

6) Enhancing the internal management system and practicing strict compliance

In pursuing further business expansion, the Group believes that when fulfilling its social responsibilities and striving to achieve sustainable growth and improvement in enterprise value, securing and developing the talent that will facilitate the Group's growth and practicing strict compliance are important management issues. In addition to hiring talent with high levels of expertise and abundant experience in fields such as internal auditing, legal affairs, financial affairs, accounting, and information security, the Group will practice strict compliance while further strengthening internal management systems by raising awareness and implementing training activities for employees on a regular basis.

7) Strengthening financial discipline

In order to achieve continued growth and expansion, the Group must further enhance and expand its revenue base and increase its capabilities to secure financing leveraging increased profits. The Group will build on this base by managing its three main businesses (Marketplace, Fintech, and Mercari US) in a manner that balances growth and profitability, including disciplined investment with an awareness of priorities.

2 Views and initiatives on sustainability

1. Overall sustainability

Mercari strives to be a planet-positive(Note) company that contributes to solving environmental issues through its business activities by realizing a society in which all forms of value—not just physical goods and money—circulate seamlessly.
Calculation of the total amount of greenhouse gas emissions avoided through the business showed that transactions in select *Mercari* categories enabled the Group to avoid approximately 530,000 tons of greenhouse gas emissions in one year in Japan and the US combined (estimation).
Mercari will contribute to creating a circular economy that makes the most of the world's finite resources by implementing a variety of measures to promote reuse and reduce waste.

(Note) "Planet positive" is based on the concept of "planetary boundaries" (the earth's limited resources). Mercari Group adopted this term to express its stance of being a company that has a positive impact on the environment through the growth of its business.

(1) Governance

In order to better incorporate ESG perspectives into management decisions and execution processes, in December 2021, Mercari established an ESG Committee to advise its Senior Executive Committee.
Mercari considers ESG and climate change to be important management topics. The ESG Committee aims to ensure sufficient time for regular discussions regarding ESG and climate change in order to enable better discussions and enhance the quality of decisions made by the Senior Executive Committee.
The Company has appointed ESG officers for each of its material topics. Having these officers offer an ESG perspective in business-related management decisions enables the Company to plan each of Mercari's business strategies in alignment with its material topics and ensures a structure that allows for swift implementation and promotion of these initiatives. The ESG officers also take part in discussions and decision-making for sustainability strategies across the Group as members of the ESG Committee.

(2) Strategy

Mercari defines its materiality as important topics that relate to creating value to contribute to resolving social and environmental issues through its business, and creating the management foundation necessary for continuous growth. The Company reviewed its materiality following the change of the new Group mission earlier this year.

Mercari Group's materiality

1) Empowerment of Individuals and Society
By creating opportunities for anyone to realize their dreams and contribute to society and the people around them, we will achieve a world that unleashes the potential in all people.

2) Creating a World That Circulates All Forms of Value
We strive to be a planet-positive company that contributes to solving environmental issues through its business activities by realizing a society in which all forms of value—not just physical goods and money—circulate seamlessly.

3) Creating a New User Experience Through Technology
We utilize data, AI, and other innovative technologies to constantly evolve our products and create new user experiences through the seamless exchange of value.

4) Building Long-Term Public Trust
We fulfill our responsibilities as a public entity and build public trust by establishing a robust and highly transparent decision-making process, and through more effective corporate governance and thorough compliance. We contribute to the realization of healthy internet services around the world by achieving a safe, secure, and fair transaction environment, and also by educating and sharing information throughout the industry.

5) Unleashing the Potential in Diverse Talent Worldwide
We aim to be a company that can continue to grow sustainably by creating an environment in which people from diverse backgrounds all around the world can reach their full potential.

(3) Risk management

The Company monitors the identified risks and opportunities under its structure for promoting sustainability, which includes the ESG Committee. In this structure, there is also a process for reporting and making suggestions to the Board of Directors as necessary, depending on the project. For details about risk management, please refer to "Business risks."

(4) Metrics and targets

The table below presents the focus areas, results, and plans for each of the identified material topics.

Material topic	Focus areas	Results for year ended June 30, 2023	Plans for year ending June 30, 2024
1) Empowerment of Individuals and Society	Create a world where anyone can unleash their potential		
2) Creating a World That Circulates All Forms of Value	• Achieving sustainable business growth • Forming a culture that will lead to the creation of a circular economy • Mitigating climate change	• GMV: ¥1.1241 trillion • Avoided greenhouse gas emissions: approx. 530,000 tons • Environmental impact: approx. 43,000 tons • Users who think that using *Mercari* is sustainable: 60%	• Work across the Group to maximize Marketplace GMV growth, expand the B2C reuse market, expand the crossborder market, and collaborate with external partners to strengthen market share in the C2C market
3) Creating a New User Experience Through Technology	• Using data/AI to achieve a seamless user experience • Promoting circular finance • Creating innovation through R&D on value exchange	• JP MAU: 22.6 million • US MAU: 4.77 million • Merpay users: 15.71 million • Mercards issued: 1.25 million • Number of bitcoin trading service users: 530,000	• Marketplace: Continue to make disciplined investments while focusing on GMV growth by investing in marketing, further evolving the product, and putting more emphasis on areas of enhancement • Fintech: Create Mercari Group synergy by acquiring more *Mercard* users and enhancing UX with such features as allowing users to make payments in bitcoin on *Mercari*
4) Building Long-Term Public Trust	• Realizing safe, secure, and fair transactions • Enhancing the effectiveness of corporate governance and ensuring compliance • Earning the trust of users and stakeholders (society, investors, media, etc.)	• Comprehensive partnership agreements signed with primary distributors: 11 • Monetary impact of fraudulent usage: reduced by 89.3% • Number of donations made on *Mercari Donation*: Cumulative total of approx. 55,000 • Number of partnerships with local governments: around 50 • Decision to transition to a Company with Three Committees	• Strengthen the internal audit structure in advance of the transition to a Company with Three Committees • Strengthen structures for data and privacy governance and cybersecurity • Strengthen collaboration with external partners (local governments, primary distributors, universities, NPOs)
5) Unleashing the Potential in Diverse Talent Worldwide	• Recruiting and training professionals from around the globe • Taking on bold challenges to achieve its mission • Building an organizational culture and environment • Embodying diversity & inclusion	• Consolidated headcount: 2,101 people • Average age: 35.7 • Annual percentage of employees who join Mercari Group by referral: 26.4% (47.2% of whom are non-Japanese citizens) • Number of nationalities: approx. 50 • Proportion of non-Japanese citizens in the software engineering organization: 53.8% • Implementation of gender pay gap correction • The first Japanese company to earn the global certification for gender equity "EDGE Assess"	• Update and implement D&I policies to strengthen inclusion • Strengthen new-graduate hiring to secure diverse talent • Build a work environment and prepare a compensation system to expand the India Center of Excellence • Update and ensure understanding of company culture, which encourages members to demonstrate Mercari's values

Details are disclosed on the official Sustainability section of the Company's website and in the Impact Report. Please access the following website:
https://about.mercari.com/en/sustainability/

(4) Metrics and targets
By 2030, the Group will aim to reduce 100% of scope 1+2 emissions compared to its benchmark year (year ended June 30, 2021) and reduce emissions related to added value for scope 3 by 51.6%.

Actual Amount of Greenhouse Gas (GHG) Emissions in Year Ended June 30, 2023 (July 2022–June 2023):
In the year ended June 30, 2023, the Group as a whole had about 43,000 tons of GHG emissions (see below).
Compared to its benchmark year (year ended June 30, 2021), the Group was able to reduce scope 1+2 emissions by 70% and the intensity of scope 3 emissions by 32%.
The Group will continue to work on initiatives to achieve its 2030 targets.

(Tons)

Scope 1	207
Scope 2	645
Scope 3	41,844
Total	42,696

As a result of the refinement of the calculation scope for this fiscal year, the items applicable to Scope 3 were changed. Accordingly, the calculation results for previous fiscal years were revised as follows.

- Year ended June 30, 2021
  Scope 3 Total
  Before revision: 36,974 tons
  After revision: 41,015 tons
  Scope 1/2/3 Total: 41,802 tons
- Year ended June 30, 2022
  Scope 3 Total
  Before revision: 37,558 tons
  After revision: 44,964 tons
  Scope 1/2/3 Total: 46,162 tons

3. Initiatives for human capital and diversity

(1) Strategy
Mercari considers investment in talent to be the most important factor in achieving its Group mission. This is because Mercari believes that each and every employee growing and fully demonstrating Mercari's values is the shortest path to achieving its mission. As a major policy, the Group has set one of its material topics as "Unleashing the Potential in Diverse Talent Worldwide."
With regard to "diverse talent worldwide," the diversity of its members is the source of its creativity. Mercari's policy is to acquire professional talent around the world with market-competitive compensation levels, and provide training through continuous opportunities for learning. Mercari now employs talented members from about 50 countries and territories. Particularly in the engineering organization, members of non-Japanese citizenships account for more than 50% of the organization.
To unleash this potential, Mercari has mechanisms to constantly encourage bold challenges. All members continually ask themselves, "Are we taking on bold challenges to achieve the mission?" and "Are we quickly learning from our failures and successes?" based on Mercari's values in various situations. The Group has also established mechanisms that increase opportunities for bold promotions and appointments for employees that demonstrate high levels of value-embodying behavior, and realize competitive compensation that is not based on individual backgrounds.
For example, the survey on gender pay gap conducted in this fiscal year revealed that the portion of the raw gender pay gap known as "unexplained" was 7%; thus, the Company conducted individual salary adjustments to reduce it. This is part of the mechanisms that the Company has in place to provide competitive compensation regardless of its members' attributes, based on its belief that there should be no difference due to gender, only by grades and job type.
Going forward, Mercari will give further balance to investment decisions that maximize the total amount of long-term value displayed by its employees. Therefore, as part of its culture, the Company will continue to clarify and constantly update the expectations it holds for its members based on its values. At Mercari, this is its concrete judgment criteria for investing in its people.
For details about Mercari's initiatives on human capital and diversity, please see the FY2023.6 Impact Report below.
https://about.mercari.com/en/sustainability/

(2) Metrics and targets

Mercari uses the following indicators for the above-mentioned policy regarding the development of talent, including ensuring the diversity of talent, and policies regarding establishment of the internal environment.

Basic information	Consolidated headcount(Note)	2,101 people
	Age ranges	20s: 22.2% / 30s: 57.1%/ 40s: 18.3% / 50s: 2.2% (Average age: 35.7)
	Average annual salary	¥10,357,750

Diversity-related information	Percentage of women employees	32.9%
	Percentage of women directors	30%
	Percentage of women in management positions	20.4%
	Difference in pay between full-time men and women employees	37.5%
	Pay gap between men and women employees that cannot be explained	7%
	Percentage of employees in engineering positions	Overall: 36.3% (Men: 89.4%, Women: 10.6%) (Non-Japanese citizens: 53.8%)
	Number of nationalities of people working at the Tokyo office	Approx. 50
	Percentage of employees of non-Japanese citizenship	25.7%
Information regarding childcare leave and paid leave	Usage rate of annual paid leave	85%
	Percentage of men employees who take childcare leave	91.4%
	Average number of days of childcare leave taken by men employees	80.5 days
	Percentage of employees who feel re-acclimated to the company 12 months after returning from childcare leave (by gender)	Overall: 83.3% (Men: 31 people, or 83.8%; Women: 14 people, or 82.4%)

The above table shows information regarding Mercari, Inc.

(Note) Includes Mercari, Inc., Souzoh, Inc., Merpay, Inc., Mercoin, Inc., Kashima Antlers F.C. Co., Ltd., Mercari, Inc. (US), and Mercari Software Technologies India Private Limited

Embracing diversity & inclusion

At Mercari, the diversity of its members is a source of creativity. The Company pursues equal opportunity for all members to be able to embody its three values to the fullest. The Company does not stand for discrimination or unfair treatment stemming from someone's background and continues monitoring its status using quantitative and qualitative data in order to make improvements. Under the principles of "Focusing on equal opportunity rather than equal outcomes" and "Setting and monitoring process-focused goals instead of outcome-focused goals like employee ratios," the Company implemented the following initiatives from three perspectives: diversity, fairness, and inclusion.

1) Initiatives for a diverse workplace
   - Monitoring the indicators defined for hiring and appointment candidate pools
   - Identifying issues and creating a cross-organizational action plan
   - Strengthening hiring initiatives
   - Holding "Build@Mercari 2023," a training program for software engineers
   - Continuing the Company's partnership for education with Kamiyama Marugoto College of Design, Technology, and Entrepreneurship to promote diversity & inclusion
   - Running the Mercari Restart Program to help people who temporarily left the workforce for reasons such as childbirth, childcare, or nursing restart their careers
2) Initiatives for a fair workplace
   - Formulating a Basic Human Rights Policy
   - Determining a process to assess, correct, and communicate on the gender pay gap, and conducting salary adjustments
   - Improving the transparency of the promotion and appointment process, and communicating it to all employees
   - Implementing a mechanism to ensure equal opportunities to access career-critical assignments
3) Initiatives for an inclusive workplace
   - Language learning programs
   - Having a dedicated translation and interpretation team
   - Running Yasashii Communication trainings
   - Holding Unconscious Bias workshops and expanding their target audience

Implementation of gender pay gap correction

Aware of the fact that the gender pay gap only shows the average difference in pay between men and women within an organization, Mercari also calculates for "unexplained pay gap," which is the gap not due to differences in things such as role, grade, or job type, in order to ascertain the situation of the gender pay gap at the company more accurately.

1) The investigation revealed that the raw gender pay gap was calculated to be 37.5%, and upon using multiple regression analysis, the unexplained gap was 7%.
2) The explainable portion of the gap was mainly caused by the difference in the distribution of grades among men and women.
3) The results of analyzing the causes of the pay gap revealed that the factor that had the most impact on it was the differences in the salaries of men and women upon entering the company (at the time of joining the company, there existed an unexplained pay gap of roughly 9%).

Based on the above analysis results, the Company implemented the following measures.

- Implemented periodic pay gap monitoring using multiple regression analysis
- At all-hands meetings in July 2023, the leadership team communicated on the company's plan to proactively ensure gender pay equity
- In August 2023, reduced the unexplained pay gap found at Mercari from 7.0% to 2.5%
- Revised its hiring practices to break the chain of pay gaps being carried over from outside its organization at the time of hiring

3 Business risks

Of the items related to the overview of business and financial information described in this Annual Securities Report, the following are major risks that management recognizes could have a significant effect on the financial position, operating results, and cash flows of consolidated companies. In addition, the probability and timing of such risks materializing, and details of the impact on the Company's financial position, operating results, and so on, have not been specifically stated in cases where they cannot reasonably be foreseen. The Company believes that through the implementation of risk management (identifying and assessing risks and formulating countermeasures), it has mitigated to a certain extent the probability of the following risks occurring.

It is the policy of Mercari Group to fully recognize the possibility of risks materializing, and to subsequently strive to avoid them and to prepare measures to take in the event that they do materialize, but the Company believes that investors must make decisions regarding shares of the Company only after careful consideration of the matters stated in this document and elsewhere.

Moreover, forward-looking statements in this document are based on the views of Group management as of the end of the fiscal year under review, and do not constitute an exhaustive list of all risks that could materialize in the future.

(1) Risks related to the business environment

1) Growth potential of the industry

Mercari Group operates the *Mercari* C2C marketplace, which enables individuals to easily and safely buy and sell items they no longer need. Against the background of such phenomena as the expansion in recent years of the global market for secondhand items, the popularization of smartphones and improvements in their functionality, and the expansion of the e-commerce market, the *Mercari* C2C marketplace has seen steady growth in gross merchandise value and the number of users, and the Company perceives this trend to be likely to continue going forward.

Merpay, Inc. also provides the *Merpay* mobile payment service and the *Mercard* credit card service through the *Mercari* app. Helped by the tailwind of the expansion of the cashless payment market, the Group has been working to enhance the convenience of these services, resulting in steady rises in *Merpay* gross payment value and number of users. In the credit area, the Group's main focus, it has witnessed a steady increase in the number of users and the usage balance of *Merpay Smart Payments* (lump-sum payment/fixed-amount payment) as well as the number of *Mercards* issued.

Mercoin, Inc. also provides a bitcoin trading service through the *Mercari* app. As users are able to easily start bitcoin trading with the sales balance and points from selling unwanted items on *Mercari*, the number of people who have opened accounts on *Mercari*'s bitcoin trading service has steadily grown.

However, there are a number of factors that may affect Mercari Group's business, financial results, and financial position. These include changes in laws and regulations restricting the secondhand market or e-commerce, changes in economic trends, or changes in consumer tastes and the like, a slowdown in the growth of target markets resulting in the gross merchandise value of the *Mercari* C2C marketplace (which accounts for the majority of the Group's sales) as a whole or the gross merchandise value of mainstay categories no longer expanding steadily and leading to users abandoning the platform and to the Group being unable to maintain its business model over the long term, or in the event that services other than the *Mercari* C2C marketplace provided by the Group, such as *Merpay* and *Mercoin*, do not grow steadily.

2) Competition

Currently there are many companies active in the market for C2C services that make use of smartphones, representing a diverse range of product categories and service formats. Internet auctions and secondhand stores also exist, and the competitive environment in the secondhand market is becoming increasingly intense. Furthermore, in the payment and finance-related business, there are multiple competitors providing electronic payment services, credit card services, and services related to those services.

Mercari Group's policy is to continue to work to respond to the needs of users and to link this to service enhancements; however, in the event that these initiatives do not generate the expected results, or in the event that more attractive or innovative services or companies providing services on more competitive terms emerge, leading to users abandoning the services provided by the Group, a decline in the number of listed items, or a fall in the level of fees, the business, financial results, and financial position of Mercari Group may be affected.

3) Legal regulation

In the *Mercari* C2C marketplace operated by the Group, sellers can purchase points with the sales balance of items they have sold, which they can then use to purchase other items. For this reason, Merpay, Inc. is registered as an issuer of prepaid payment instruments for third-party business and as a funds transfer service provider under the terms of the Payment Services Act and conducts its business in compliance with relevant laws and regulations, including laws and ordinances, and Cabinet Office orders. Currently, no events constituting grounds for revocation have occurred.

Furthermore, in addition to the provision of the *Mercard* credit card service, the *Merpay* mobile payment service provides *Merpay Smart Payments* (lump-sum payment/fixed-amount payment), a service enabling buyers to pay off amounts at the end of the following month or in installments, and *Merpay Smart Money*, a small-sum loan service. For this reason, Merpay, Inc. is registered as a business operator concluding contracts involving the handling of credit card numbers, etc., as a registered comprehensive credit purchase intermediary (including certification as a certified comprehensive credit purchase intermediary) and as a moneylender under the terms of the Installment Sales Act and conducts its business in compliance with relevant laws and regulations, including laws and ordinances, and Cabinet Office orders. To offer the bitcoin trading service, Mercoin, Inc. is registered as a cryptoasset exchange service provider under the terms of the Payment Services Act and conducts its business in compliance with relevant laws and regulations, including laws and ordinances, and Cabinet Office orders. Currently, no events constituting grounds for revocation have occurred in any of these businesses.

In the US, the Group has applied for money transmitter licenses in those states that require it for regulatory purposes in relation to payments, and has already obtained licenses in all such states.
The Group responds appropriately to moves by regulatory authorities, including tax authorities, and moves to revise existing laws and regulations, but in some cases it is impossible or extremely difficult to accurately predict such moves in advance, and in the event that it is unable to respond in a timely and appropriate fashion, the business, financial results, and financial position of Mercari Group may be affected. In the event that Mercari Group receives an administrative punishment of some kind for infringement of these laws and regulations, etc., or in the event that the application of new laws or regulations or significant changes in the approach taken by regulatory authorities lead to restrictions on the operation of the *Mercari* C2C marketplace or on other existing or new businesses, the business, financial results, and financial position of Mercari Group may be affected.

4) Natural disasters
In the event of unexpected situations caused by fires or natural accidents and disasters such as major earthquakes or typhoons resulting in the suspension of development or operations, damage to facilities, restrictions on the supply of electricity, or interruptions or disruption to the delivery network, the provision of services by the Group may be hindered, and the business, financial results, and financial position of Mercari Group could in turn be affected. For other risks related to climate change, please refer to “Management policy, business environment, issues to address.”

(2) Risks related to the business

1) Maintaining the soundness of services
The services operated by the Group consist in essence of the provision of a platform where transactions take place. In order to ensure the soundness of this platform, the Group strives to eliminate counterfeit items and other items whose listing is prohibited, not only by clearly indicating prohibited items within the service but also by putting in place monitoring and reporting systems, and by cooperating with rights owners such as brands. In addition, the Group is not a party to sale contracts with users or user service provision agreements, and the terms of service also stipulate that problems arising between users are not the responsibility of Mercari Group and must be resolved between the parties involved.
However, in the event that actions that harm the intellectual property, good name, privacy, or other rights of third parties occur, or fraud or other illegal acts take place within the services provided by the Group, or in the event that it is impossible to prevent inappropriate acts within these services, leading to the inability of the Group to ensure the safety and soundness of the platform, trust in Mercari Group or the services provided by Mercari Group may decline, leading to users abandoning the platform. Furthermore, in the event that responsibility is forced not only on the party performing such problematic acts but also on the Group as provider of the platform, this may result in damage to the corporate image and trustworthiness of Mercari Group, and in turn affect its business, financial results, and financial position.

2) Risks related to fraudulent use
On the *Mercari* C2C marketplace operated by the Group, credit card payments are offered as a method of payment for transactions conducted on the platform. In order to prevent the illicit hijacking of accounts through phishing or other means, the Group has strengthened measures to prevent fraudulent logins by third parties through the use of multifactor authentication and other approaches when logging in to the platform. Additionally, in order to prevent the fraudulent use of third parties’ credit cards by buyers, the Group has introduced an authentication service (EMV-3D Secure) as well as human and system surveillance of transactions, so as to form comprehensive risk judgment and block fraudulent use.
However, in the event that fraudulent transactions on the platform cannot be prevented, damage may be caused by users being compensated for fraudulent transactions and by a decline in trust in Mercari Group, and in the event that this damage spreads further, the business, financial results, and financial position of Mercari Group may be affected.

3) Risks related to global expansion
With the aim of expanding revenue opportunities, the Group operates *Mercari* in the US as a marketplace where anybody can easily and safely sell a variety of items, and the Group intends to continue strengthening global expansion going forward.
In the course of this global expansion, it is possible that in the future the Group will continue to make substantial investments in advertising and personnel. There are also a variety of potential risks associated with language, geographical factors, various regulations including legal and tax systems, economic and political instability, differences in culture, user tastes, and business customs, and exchange rate volatility, as well as risks related to difficulties in obtaining the human resources necessary for business expansion, and the risk of rivalry from highly competitive companies in the country in question. In the event that the Group is unable to deal with such risks, the global expansion of Mercari Group may be affected.

4) Systems
When using the *Mercari* C2C marketplace operated by the Group, it is essential that the user be able to access the internet or mobile networks, in addition to which the IT systems of the Group are also important.
In order to reduce the probability of system trouble, the Group has implemented thoroughgoing measures to strengthen the security and operational stability of its systems, and has put in place a structure to enable prompt recovery even in the event of such trouble occurring. The various financial figures in the financial statements of the Company are also obtained from the IT systems of the Company, and these consist of multiple business-processing systems developed internally. In order to ensure the appropriateness of system processing, the Group has put in place and operates a business processing control framework.

However, in the event that a system goes down as a result of factors that are impossible for the Group to predict, such as temporary overload of the system or the interruption of its power supply, software malfunctions, infiltration of computers as a result of computer viruses or by illicit third-party access, or due to natural disasters or accidents, or in cases where events originating outside the Group's systems have a detrimental impact on user access, the business, financial results, financial position, and structure for appropriate financial reporting of Mercari Group may be affected.
In order to maintain stable operation of its services and grow business, the Group must continuously invest in areas such as system infrastructure. In the event of rapid growth in users or traffic that exceeds the expectations of the Group, or the need to augment systems in order to strengthen security or for other reasons, additional investments may be required, which may affect the business, financial results, and financial position of Mercari Group.

5) Possibility of litigation, etc.
In the event of illegal acts or trouble caused by users, or infringements of the rights of third parties, the Group may be sued or be the target of other demands from users or other third parties.
Conversely, in the event that the rights of the Group are infringed or damaged by third parties in some way, the Group may need to spend large sums of money on litigation to protect its rights.
In such cases, depending on the details of the litigation or the sums of money demanded, the Group's business, financial results, financial position, and social credibility as a company may be affected.

6) Risks related to intellectual property rights
Mercari Group works to acquire intellectual property rights related to the businesses that it operates, and seeks to protect the trademarks, technology, content, and other assets used by the Group through intellectual property rights, but in the event that its intellectual property rights cannot be protected from infringement by third parties, or in the event that significant costs are incurred as a result of protecting such intellectual property rights, the business, financial results, and financial position of Mercari Group may be affected. In addition, in the event that a third party claims infringement of intellectual property rights in relation to the technology or content used by Mercari Group, resulting in costs or losses being incurred in order to protect against or resolve related disputes, there is a possibility that the business, financial results, and financial position of Mercari Group may be affected.

7) Enhancing the business foundation
In order to expand the scale of the business and to diversify sources of revenue, the policy of the Group is to enhance the business foundation and to work on new business initiatives, including efforts such as building a Mercari Group ecosystem with integrated Mercari IDs. In the future it is possible that the Group will launch new services or adopt services from third parties, but the ecosystem concept is still in the initial stages, and because it involves many uncertain elements, including competition with other services, profitability, regulatory risk, the impact on operations, and the effect on the Group's reputation, the building of this ecosystem may not progress as anticipated by the Group; even if the Group succeeds in building this ecosystem, the Group may not obtain sufficient profits from it.
In addition, Merpay, Inc. is registered as an issuer of prepaid payment instruments for third-party business, as a funds transfer service provider, as a business operator concluding contracts involving the handling of credit card numbers, etc., as a registered comprehensive credit purchase intermediary (including certification as a certified comprehensive credit purchase intermediary), and as a moneylender, while Mercoin, Inc. is registered as a cryptoasset exchange service provider, but risks associated with the nature and content of future services provided may emerge.
With regard to enhancing the business foundation and developing new businesses, the Group's policy is to seek to mitigate risk by fully investigating both risks and synergies with existing services at the planning and development stages. The Group recognizes that M&A, joint ventures, capital and business alliances, and investment activities are also effective approaches when enhancing the business foundation or developing new businesses in this way, and its policy is to continue to explore these going forward.
On the other hand, because there are many uncertain elements associated with enhancing the business foundation and developing new businesses, in the event that the Group implements such initiatives, they may not progress as anticipated by the Group, the expected synergies may not be obtained, and new legal or operational risk elements may emerge. Liabilities and losses may occur in relation to unexpected costs and impairments of goodwill and other items, and additional investments may become necessary as a concomitant of these initiatives. Furthermore, in the case of M&A or similar initiatives, there is a risk of unexpected events occurring as a result of the limitations of due diligence, which may affect the business, financial results, and financial position of Mercari Group.

8) Dependence on third parties
Because the Group offers smartphone apps for users, providing apps via the platforms operated by Apple Inc. and Google LLC is an important precondition of the Group's business in its current form. The Group has also adopted services provided by external operators, such as credit card payments, convenience store payments, and ATM payments, as payment methods for users. Accordingly, the business, financial results, and financial position of Mercari Group may be affected by trends and business strategies at these operators, and by their relationship with the Group.
In addition, because delivery of items sold on the Group's services is dependent on delivery service operators such as Yamato Transport Co., Ltd. and Japan Post Co., Ltd., in the event of changes in the terms of transactions with these operators, revisions to their business policies, etc., or changes in delivery conditions, the business, financial results, and financial position of Mercari Group may be affected.

9) Payment and finance-related business

Risks that affect the business of Mercari Group may emerge in the future as a result of such factors as significant costs required for compliance with regulatory requirements, or additional regulatory requirements, associated with the payment and finance-related business.

In the course of operating its services and the payment and finance-related business in Japan and overseas, the Group may become subject to a variety of laws and regulations in such areas as the transfer of money, payments, e-commerce transactions, money laundering, user authentication, prevention of terrorist financing, installment sales, and money lending. In the unlikely event that the Group is found to be in violation of its duties under these laws and regulations such as due to it being unable to establish internal systems quickly enough to keep up with the speed of growth in services, it may be subject to fines or other penalties or sanctions such as an order to suspend business, and/or be forced to change its services, which in either case may have a significant impact on the business, financial position, and operating results of the Group.

Furthermore, with regard to mobile payment services and other parts of the payment and finance-related business, a variety of additional risks may emerge, including the following.

a. Increases in operating expenses and management costs associated with fraudulent transactions, response to failed transactions, customer service, and management of consigning entity
b. Impact on relationship with companies currently providing payment processing services
c. Increase in cost of capital following infrastructure construction
d. Potential fraud or illegal acts committed by users, platform partners, employees, or third parties
e. Leaks of users' personal information and concerns regarding the use and safety of information used
f. Restrictions on the amount of funds deposited by users for the purpose of payment processing
g. Additional disclosure and reporting obligations

10) Cryptoasset exchange service

The cryptoassets deposited to the Group by users are stored in the wallet managed by Mercoin, Inc. To address the risks of such cryptoassets being leaked due to unauthorized access from an outside party and other risks, the Group has implemented various measures, including the development of a system to control a private key and a wallet structure. However, in the event that cryptoassets are leaked due to unauthorized access, this could significantly affect Mercari Group's financial results and financial position.

(3) Risks related to the Company's organization

1) Risks related to human resources

Mercari Group is highly dependent on the management team for the formulation and execution of business strategy for the Group as a whole; in the event of insufficient human resources within this management team, Mercari Group's business, financial results, and financial position may be affected.

Moreover, in order for the Group to continue expanding in scale and providing the services needed by society, the Group must secure exceptional and highly motivated talent who share Mercari Group's values. This includes talent with technical expertise in smartphone app development and design, as well as talent whose expertise is suited for Mercari's security, corporate, and customer support divisions. The Group's global expansion also requires it to secure talent who are well-versed in local market trends and business.

The Group intends to continue recruiting as necessary to secure the kind of talent that is required to expand the scale of the business and enhance its services. However, should it become difficult to obtain talent of the necessary standard due to such factors as intensifying competition for human resources or changes in market needs, which may prevent the Group from hiring as expected, or in the event that talent currently employed by the Group leave to work elsewhere, Mercari Group's business, financial results, and financial position may be affected.

2) Business structure and internal control structure

Established in February 2013, Mercari is still in its growth phase. The Group recognizes that in order to address the future management and expansion of the business, further enhancements to the business structure and internal control structure are required. In the event that delays arise in the building of a suitable business structure and internal control structure, this could affect Mercari Group's business, financial results, and financial position. In accordance with laws and regulations, the Group has built and operates an internal control system to ensure the appropriateness of financial reporting. However, there is a possibility that a significant error in the financial reports of the Group could be discovered. There is also no guarantee that the Group will always be able to build and operate an effective internal control system in the future. Furthermore, the trustworthiness of Mercari Group's financial reporting may be affected by such things as specific limitations inherent in the internal control system, ineffective functioning of the internal control system associated with the financial reporting of the Group, or a significant deficiency that occurs in the internal control system associated with financial reporting.

3) Management of personal information

For the operation of the *Mercari* C2C marketplace service, the Group collects information that enables the identification of individual users, such as addresses, names, and telephone numbers. In addition to appropriately managing this personal information in accordance with its personal information protection policy, the Group has set out internal regulations for the protection of personal information, has implemented thorough internal education, and has built and continues to improve its management systems.

The Group takes the utmost care with the protection of personal information and the privacy of users, and takes appropriate steps to manage information. However, there is a possibility that user privacy could be violated, that personal information could be leaked, or that information leaked outside the Company as a result of unauthorized access could be misused following such leaks. If such an event were to occur, Mercari Group's business, financial results, financial position, and social credibility as a company could be affected.

In addition, in the event of revisions to laws and regulations related to user privacy or the protection of personal information in any of the jurisdictions in which the Group operates, the business, financial results, and financial position of Mercari Group could also be affected.

(4) Operating results and financial position

1) Operating results

Established in February 2013, Mercari is still in its growth phase. In previous fiscal years, consolidated results have been characterized by the recording of losses attributable to owners of parent, initially due to the Company being at the stage of establishing its *Mercari* C2C marketplace, and subsequently as a result of investments in new businesses, primarily *Mercari* (US) and the *Merpay* mobile payment service in Japan. A profit attributable to owners of parent was recorded for the fiscal year under review, but the Group is implementing a disciplined program of investment focused on the maximization of future profits. However, there is no guarantee that the Company will consistently achieve profits at the consolidated level going forward. Furthermore, because the Group is going through a process of rapid growth, operating results from previous fiscal years may not provide adequate material for comparisons between different periods.

Gross merchandise value, MAU(Note), and other indicators are calculated using methods considered reasonable within Mercari Group, but in addition to these not necessarily being comparable with those of other companies, past figures may not provide adequate material to form a judgment on future trends.

(Note) MAU (Monthly Active Users) is defined as the quarterly average number of registered users who accessed the *Mercari* service via app or website at least once during a given month.

2) Continuous investments

In order to achieve continuous growth, the Group believes it is necessary to raise awareness and trust so as to both acquire more new users and retain existing users. Accordingly, since Mercari was established, the Group has invested in product improvements, enhancements to the convenience of packing and shipping, and marketing initiatives. Going forward, the Group's policy will be to continue investments that lead to growth while maintaining discipline.

However, Mercari Group's business, financial results, and financial position may be affected by such factors as changes in the business environment, advertising expenses that do not generate sufficient results, rising costs, or profits not being generated as planned due to investments continuing for longer than expected.

3) Results of consolidated overseas subsidiaries

In January 2014, the Group established US-based consolidated subsidiary Mercari, Inc. (US), which operates *Mercari* in the US as a marketplace where anyone can sell a variety of items easily and safely. The service was launched in September 2014, began charging a selling fee proportionate to the purchase value in October 2016, and started levying a payment fee in October 2020.

Even after beginning to charge fees, the Group has continued to invest in the expansion of the user base and further development of the service, and in the event that the business does not expand as expected and continuous advertising expenses, additional investments, and other burdens lead to losses expanding or extending over a long period of time, there is a possibility that the business, financial results, and financial position of Mercari Group will be affected and that losses at the consolidated level will expand in the short term.

4) Dividend policy

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. The Group's policy is to consider returns to shareholders in the future while taking into account operating results for each fiscal year. However, at this point in time, the Group has not made any decisions on the possibility or timing of paying dividends.

(5) Other

Dilution of share value through issuance of additional shares, etc.

Mercari Group grants stock acquisition rights and Restricted Stock Units (RSU) to its directors, auditors, and employees with the aim of providing medium- to long-term incentives to enhance corporate value. This system can also be used for the recruitment of outstanding talent. In addition, the Company issues convertible bonds with stock acquisition rights. In the event that the stock acquisition rights are exercised, the shares associated with the RSU are issued, or the convertible bonds with stock acquisition rights are converted into shares, the value and percentage of voting rights of shares held by existing shareholders may be diluted.

4 Analysis of financial position, operating results, and cash flows

(1) Overview of operating results, etc.

1) Overview of operating results

In the fiscal year ended June 30, 2023, the Group worked on business management that takes into consideration the balance between growth and revenue by building a sturdy global business base. As a result, the Group achieved record-high net sales and operating profit on a consolidated basis. In the Marketplace domain, where Mercari celebrated the 10th anniversary of the launch of its core marketplace app, this was a year in which the Group embarked on several initiatives, such as launching new services (*Mercard* and a bitcoin trading service), to reach a scale of ¥1.0 trillion for full-year gross merchandise value (GMV [Note 1]) and create Group synergy that will support future growth for the Fintech domain.

In the Marketplace domain, as one of its business objectives for the current fiscal year, the Group strove to increase the number of listings on *Mercari* through strengthened collaboration between the C2C and B2C business areas. The Group was able to achieve steady growth and a high level of profitability with MAU [Note 2] of 22.60 million, full-year GMV of ¥984.6 billion (up 10% year-on-year) and adjusted operating margin [Note 3] of 44% due to disciplined investments in areas that will have steadily accumulating results. On the product front, the Group implemented major updates to the internal system of the *Mercari* app in order to build a system environment where development work such as adding and modifying new features can be executed even faster than before. Furthermore, to maximize Group synergy through collaboration with Fintech, the Group promoted measures, for example introducing a loyalty program, that will spur further growth for the next fiscal year and onward.

In the Fintech domain, the Group worked to promote circular finance by strengthening Group synergy as one of its business objectives for the current fiscal year. The Group made steady progress on creating Group synergy for the future, such as by launching *Mercard* and a bitcoin trading service as well as other initiatives. In spite of expanding investments into new services, the Group recorded an unadjusted operating profit [Note 4] for the full year owing to continuous improvement in profitability, which became even stronger due to the steady growth of credit services led primarily by fixed-amount payment. Amid credit balance [Note 5] growing to ¥117.8 billion, driven by the growth of fixed-amount payment, the collection rate [Note 6] improved to 98.7% as a result of strict credit control, etc. that utilized the Group's proprietary AI credit check, and realized sound growth.

As a result of the above, Japan Region reported net sales of ¥122,199 million (up 22.0% year-on-year) and segment profit of ¥34,464 million (up 107.3% year-on-year) for the fiscal year ended June 30, 2023.

In its US business, the Group's business policy for the current fiscal year focused on product improvements that promote both selling and buying. In addition to implementing efficient marketing activities mainly targeting existing users, the Group implemented various measures to promote purchases and reduce the burden on buyers, such as by introducing a new plan that reduces shipping costs for small packages and introducing a bundled shipping option. On the other hand, the full-year GMV growth rate was -11% year-on-year due to the ongoing slowdown of purchases owing to external environment factors such as inflation, which persisted from the previous fiscal year. As a result of the above, in the current fiscal year, GMV for *Mercari* in the US market decreased by $130 million year-on-year to $1,015 million (¥139.5 billion; the exchange rate conversion is the total of the amounts calculated for each month using the average rate during the month), and MAU totaled 4.77 million. Net sales amounted to ¥44,440 million (up 6.8% year-on-year). On the other hand, segment operating loss improved significantly to ¥8,804 million (versus a segment operating loss of ¥12,135 million in the corresponding period of the previous fiscal year), resulting from a review of expenses for lean business management.

As a result, for the fiscal year ended June 30, 2023, the Group recorded net sales of ¥172,064 million (17.0% increase year-on-year), operating profit of ¥17,023 million (compared to operating loss of ¥3,715 million in the previous fiscal year), ordinary profit of ¥17,449 million (compared to ordinary loss of ¥3,896 million in the previous fiscal year), and net profit attributable to owners of parent of ¥13,070 million (compared to net loss attributable to owners of parent of ¥7,569 million in the previous fiscal year).

(Note 1) GMV (Gross Merchandise Value) is the total value of merchandise sold during a specified period.

(Note 2) MAU (Monthly Active Users) is defined as the quarterly average number of registered users who accessed the *Mercari* service via app or website at least once during a given month.

(Note 3) Profit after deducting internal transactions with Fintech (outsourced payment processing fees).

(Note 4) Profit before deducting internal transactions with Marketplace (outsourced payment processing fees).

(Note 5) *Merpay Smart Payments* (lump-sum and fixed-amount payment) and *Merpay Smart Money* credit balance as of June 30, 2023 (excludes debt converted into bankruptcy reorganization debt, etc.).

(Note 6) Average aggregated rate of the quarterly cumulative collections completed within the past 11 months compared to the amount of *Merpay Smart Payments* (lump-sum payment and fixed-amount payment) and *Merpay Smart Money* billed in the past 11 months (excludes debt converted into bankruptcy reorganization debt, etc.).

2) Overview of financial position

(Assets)

Total assets at the end of the current fiscal year increased by ¥75,430 million from the end of the previous fiscal year to ¥415,292 million.

The main reasons for any increases and decreases are as follows.

- The main reasons for any increases and decreases in cash on hand and in banks are outlined in the Overview of Cash Flows for the Period section below.
- Other receivable increased by ¥35,427 million compared to the end of the previous fiscal year, primarily due to an increase in use of *Merpay Smart Payments* (lump-sum payment and fixed-amount payment).
- Guarantee deposits increased by ¥34,834 million from the end of the previous fiscal year, primarily due to deposits paid based on laws and regulations accompanying the increase in the amounts spent on *Mercari* and *Merpay*.

(Liabilities)
Total liabilities at the end of the current fiscal year increased by ¥58,199 million from the end of the previous fiscal year to ¥360,063 million.
The main reasons for any increases and decreases are as follows.

- Borrowings increased by ¥26,179 million from the end of the previous fiscal year, primarily due to the liquidation of receivables for lump-sum payments and fixed-amount payments.
- Deposits received increased by ¥24,308 million from the end of the previous fiscal year, primarily due to higher spending on *Mercari* and *Merpay*.

(Net assets)
Net assets at the end of the current fiscal year increased by ¥17,230 million from the end of the previous fiscal year to ¥55,228 million.
The main reasons for any increases and decreases are as follows.

- Capital stock increased by ¥1,423 million from the end of the previous fiscal year following the issuance of new shares.
- Capital surplus increased by ¥1,423 million from the end of the previous fiscal year following the issuance of new shares.
- Retained earnings increased by ¥13,070 million from the end of the previous fiscal year due to the recording of net profit attributable to owners of parent.

3) Overview of cash flows for the period
Cash and cash equivalents (hereinafter referred to as “cash”) for the current fiscal year decreased by ¥9,359 million from the end of the previous fiscal year and amounted to ¥202,047 million at the end of the current fiscal year.
The status of cash flows and their contributing factors for the current fiscal year are as follows.
(Cash flows from operating activities)
Cash used in operating activities during the current fiscal year amounted to ¥36,883 million (compared to ¥26,217 million used in the previous fiscal year). This is primarily attributable to net profit before income taxes of ¥16,389 million, an increase in deposits received of ¥23,608 million, an increase in other receivable of ¥35,381 million, and an increase in guarantee deposits of ¥34,831 million.
(Cash flows from investing activities)
Cash used in investing activities during the current fiscal year amounted to ¥632 million (compared to ¥671 million used in the previous fiscal year). This is primarily attributable to purchase of property and equipment of ¥471 million and purchase of investment securities of ¥286 million.
(Cash flows from financing activities)
Cash provided by financing activities during the current fiscal year amounted to ¥26,839 million (compared to ¥62,065 million provided in the previous fiscal year). This is primarily attributable to change in short-term borrowings of ¥867 million and proceeds of ¥25,660 million from long-term borrowings.

5 Important business contracts
Not applicable.

6 Research and development activities
In December 2017, Mercari established Mercari R4D as a research and development organization with the goal of implementing its findings in society. Rather than merely establishing a system for exchanging value, Mercari R4D aims to use the power of science and technology to update social infrastructure without being constrained by existing conventions and create a world where all forms of value are circulated to unleash the potential of people and things. The organization’s current research areas include not only natural science areas, such as value-exchange engineering, quantum information technology, accessibility, blockchain technology, and mobility, but also ethical, legal, and social issues (ELSI), communication, linguistics, and other sociocultural areas. The total research and development expenses for the year ended June 30, 2023, were ¥369 million.
Information by segment is omitted as the research and development activities conducted during the year ended June 30, 2023, cannot be linked to a certain segment.

III Facilities

1 Overview of capital investments

Total capital expenditure undertaken during the year ended June 30, 2023, amounted to ¥531 million (including intangible fixed assets) and was mainly allocated for the purchase of office equipment for Mercari's head office in the Japan Region segment and for the acquisition of leased assets for shipping services.

No major facilities were retired or sold during the year ended June 30, 2023.

2 Major facilities

(1) Company submitting this report

As of June 30, 2023

Office name	Location	Name of segment	Facilities	Carrying amount						Number of employees (Persons)
				Buildings and structures (Millions of yen)	Tools, furniture, and fixtures (Millions of yen)	Leased assets (Millions of yen)	Software (Millions of yen)	Other (Millions of yen)	Total (Millions of yen)	
Head Office	Minato-ku, Tokyo	Japan Region/ Corporate (shared)	Business facilities	217	440	388	74	–	1,121	1,156 [49]
Fukuoka Office	Hakata-ku, Fukuoka-shi, Fukuoka	Japan Region	Business facilities	0	4	–	–	–	4	60 [136]

(2) Domestic subsidiaries

As of June 30, 2023

Company name	Office name (Location)	Name of segment	Facilities	Carrying amount						Number of employees (Persons)
				Buildings and structures (Millions of yen)	Tools, furniture, and fixtures (Millions of yen)	Leased assets (Millions of yen)	Software (Millions of yen)	Other (Millions of yen)	Total (Millions of yen)	
Merpay, Inc.	Head Office (Minato-ku, Tokyo)	Japan Region	Business facilities	–	–	–	–	–	–	361 [100]
Kashima Antlers F.C. Co., Ltd.	Head Office (Kashima-shi, Ibaraki)	Other	Business facilities	1,631	28	3	4	66	1,735	61 [46]
Souzoh, Inc.	Head Office (Minato-ku, Tokyo)	Japan Region	Business facilities	–	0	–	–	–	0	27 [24]
Mercoin, Inc.	Head Office (Minato-ku, Tokyo)	Japan Region	Business facilities	–	0	–	–	–	0	74 [1]

(3) Overseas subsidiaries

As of June 30, 2023

Company name	Office name (Location)	Name of segment	Facilities	Carrying amount						Number of employees (Persons)
				Buildings and structures (Millions of yen)	Tools, furniture, and fixtures (Millions of yen)	Leased assets (Millions of yen)	Software (Millions of yen)	Other (Millions of yen)	Total (Millions of yen)	
Mercari, Inc. (US)	Head Office (Palo Alto, California, United States)	US	Business facilities	–	56	–	–	–	56	226 [6]
Mercari Software Technologies India Private Limited	Head Office (Bengaluru, Karnataka, India)	Other	Business facilities	–	14	–	–	–	14	37 [5]

(Notes) 1. Mercari Group leases space in a number of buildings as well as land, and annual rent expenses are ¥2,050 million.
2. The average number of temporary employees during the year is stated in square brackets.

3 Plans for acquisition and retirement of facilities

(1) Acquisition of important facilities

Not applicable.

(2) Retirement of important facilities

Not applicable.

IV Company information

1 Dividend policy

As the Company has focused on the accumulation of internal reserves in the aim of enhancing its financial standing and expanding its business continually for long-term stability of the management base, it has not made any dividend payments since its incorporation. This policy is applicable to the fiscal year ended June 30, 2023. However, the Company also believes that maximizing interests of its shareholders is a key management objective, and going forward, it intends to consider issuing dividends from surplus to its shareholders after comprehensively taking into account its business and financial condition, plans for future business and investments, and the appropriate level of internal reserves.

The Company will effectively use the internal reserves as funds to enhance its financial standing and expand its business continually for long-term stability of the management base.

In principle, the Company will make annual dividend payment at the end of a fiscal year, if any. Furthermore, the Articles of Incorporation set out that the Company can make an interim dividend payment once a year and make another dividend payment by setting a record date other than the above date. In accordance with Article 459, paragraph (1) of the Companies Act, the Company’s Articles of Incorporation provide that the Board of Directors shall make decisions regarding the dividends of surplus.

V Financial Information

1. Consolidated Financial Statements, etc.
   (1) Consolidated financial statements
      1) Consolidated balance sheets

(Millions of yen)

	As of June 30, 2022	As of June 30, 2023
Assets		
Current assets		
Cash on hand and in banks	211,406	196,271
Trade accounts receivable	4,454	6,374
Securities	-	5,775
Other receivable	80,287	115,714
Prepaid expenses	2,805	2,261
Deposits paid	7,093	2,708
Other current assets	2,156	16,994
Allowance for doubtful accounts	(4,807)	(5,455)
Total current assets	303,396	340,644
Non-current assets		
Property and equipment	3,462	2,781
Intangible assets	666	584
Investments and other assets		
Investment securities	117	78
Lease deposits	1,614	1,407
Deferred tax assets	3,417	7,802
Guarantee deposits	26,774	61,608
Other assets	413	385
Total investments and other assets	32,337	71,282
Total non-current assets	36,466	74,648
Total assets	339,862	415,292

(Millions of yen)

	As of June 30, 2022	As of June 30, 2023
Liabilities		
Current liabilities		
Short-term borrowings	54,254	55,121
Current portion of long-term borrowings	1,348	16,713
Accounts payable	18,217	19,509
Accrued expenses	1,915	1,485
Income taxes payable	1,525	6,627
Deposits received	139,094	163,402
Provision for bonuses	1,389	1,914
Provision for point certificates	359	1,036
Provision for share-based compensation	91	209
Other current liabilities	6,525	7,588
Total current liabilities	224,722	273,608
Non-current liabilities		
Convertible-bond-type bonds with stock acquisition rights	50,000	50,000
Long-term borrowings	25,749	35,696
Retirement benefit liability	75	42
Asset retirement obligations	126	126
Deferred tax liabilities	162	138
Other non-current liabilities	1,028	451
Total non-current liabilities	77,141	86,454
Total liabilities	301,864	360,063
Net assets		
Shareholders' equity		
Capital stock	44,628	46,052
Capital surplus	44,582	46,005
Retained earnings (Accumulated deficit)	(53,757)	(40,687)
Treasury stock	(0)	(0)
Total shareholders' equity	35,453	51,370
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-	(0)
Deferred gains or losses on hedges	-	159
Foreign currency translation adjustments	1,303	2,051
Total accumulated other comprehensive income	1,303	2,211
Stock acquisition rights	926	1,092
Non-controlling interests	314	554
Total net assets	37,998	55,228
Total liabilities and net assets	339,862	415,292

2) Consolidated statements of income and comprehensive income

Consolidated statement of income

(Millions of yen)

	For the fiscal year ended June 30, 2022	For the fiscal year ended June 30, 2023
Net sales	147,049	172,064
Cost of sales	51,905	57,639
Gross profit	95,143	114,425
Selling, general and administrative expenses	98,859	97,401
Operating profit (loss)	(3,715)	17,023
Non-operating income		
Interest income	50	501
Consumption taxes refund	28	34
Subsidy income	4	-
Subsidy income	-	139
Other	26	41
Total non-operating income	110	716
Non-operating expenses		
Interest expense	129	182
Foreign exchange loss	149	79
Bond issuance costs	11	-
Other	0	28
Total non-operating expenses	290	290
Ordinary profit (loss)	(3,896)	17,449
Extraordinary income		
Gain on sales of investment securities	15	-
Gain on liquidation of investment securities	16	-
Gain on reversal of stock acquisition rights	1	2
Total extraordinary income	32	2
Extraordinary losses		
Loss on retirement of non-current assets	51	50
Loss on devaluation of investment securities	82	325
Loss on cancellation of leases	-	519
Cancellation penalty	-	114
Other	-	53
Total extraordinary losses	133	1,063
Net profit (loss) before income taxes	(3,997)	16,389
Income taxes - current	4,718	7,944
Income taxes - deferred	(1,075)	(4,470)
Total income taxes	3,642	3,474
Net profit (loss)	(7,640)	12,914
Net loss attributable to non-controlling interests	(70)	(155)
Net profit (loss) attributable to owners of parent	(7,569)	13,070

Consolidated statements of comprehensive income

(Millions of yen)

	For the fiscal year ended June 30, 2022	For the fiscal year ended June 30, 2023
Net profit (loss)	(7,640)	12,914
Other comprehensive income		
Valuation difference on available-for-sale securities	-	(0)
Deferred gains or losses on hedges	-	160
Foreign currency translation adjustments	1,308	747
Total other comprehensive income	1,308	908
Comprehensive income	(6,331)	13,823
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(6,260)	13,978
Comprehensive income attributable to non-controlling interests	(70)	(155)

3) Consolidated statements of changes in Equity
For the fiscal year ended June 30, 2022

(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	42,630	42,585	(46,149)	(0)	39,065
Cumulative effects of changes in accounting policies			(38)		(38)
Restated balance	42,630	42,585	(46,188)	(0)	39,027
Changes of items during the period					
Issuance of new shares	1,998	1,997			3,996
Net loss attributable to owners of parent			(7,569)		(7,569)
Purchase of treasury stock				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during the period	1,998	1,997	(7,569)	(0)	(3,573)
Balance at the end of current period	44,628	44,582	(53,757)	(0)	35,453

	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	-	-	(5)	(5)	566	386	40,013
Cumulative effects of changes in accounting policies							(38)
Restated balance	-	-	(5)	(5)	566	386	39,974
Changes of items during the period							
Issuance of new shares							3,996
Net loss attributable to owners of parent							(7,569)
Purchase of treasury stock							(0)
Net changes of items other than shareholders' equity	-	-	1,308	1,308	360	(72)	1,597
Total changes of items during the period	-	-	1,308	1,308	360	(72)	(1,976)
Balance at the end of current period	-	-	1,303	1,303	926	314	37,998

For the fiscal year ended 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

4) Consolidated statements of cash flows

(Millions of yen)

	For the fiscal year ended June 30, 2022	For the fiscal year ended June 30, 2023
Cash flows from operating activities		
Net profit (loss) before income taxes	(3,997)	16,389
Depreciation and amortization	818	933
Loss on retirement of non-current assets	51	50
Gain on sales of investment securities	(15)	-
Loss on devaluation of investment securities	82	325
Gain on liquidation of investment securities	(16)	-
Bond issuance costs	11	-
Change in allowance for doubtful accounts	2,391	648
Change in provision for point certificates	(442)	677
Change in provision for bonuses	(294)	524
Change in provision for share-based compensation	(60)	117
Interest income	(50)	(501)
Interest expense	129	182
Change in trade accounts receivable	(2,019)	(1,913)
Change in other receivable	(33,133)	(35,381)
Change in accounts payable	343	1,234
Change in deposits paid	(720)	4,436
Change in deposits received	19,934	23,608
Other—net	156	(10,897)
Subtotal	(16,832)	435
Interest income received	50	500
Interest expense paid	(129)	(183)
Change in guarantee deposits	(0)	(34,831)
Income taxes paid	(9,339)	(2,978)
Other—net	33	173
Net cash provided by (used in) operating activities	(26,217)	(36,883)
Cash flows from investing activities		
Purchase of investment securities	-	(286)
Proceeds from sales of investment securities	15	0
Purchase of property and equipment	(669)	(471)
Proceeds from refund of lease deposits	2	177
Purchase of subsidiaries' shares resulting in a change in scope of consolidation	(18)	-
Other—net	(1)	(51)
Net cash provided by (used in) investing activities	(671)	(632)
Cash flows from financing activities		
Change in short-term borrowings	34,652	867
Proceeds from long-term borrowings	1,000	25,660
Repayments of long-term borrowings	(25,449)	(348)
Proceeds from issuance of bonds	49,876	-
Proceeds from issuance of common stock	2,090	832
Other—net	(103)	(171)
Net cash provided by (used in) financing activities	62,065	26,839
Foreign currency translation adjustments on cash and cash equivalents	4,767	1,317
Change in cash and cash equivalents	39,942	(9,359)
Cash and cash equivalents at the beginning of period	171,463	211,406
Cash and cash equivalents at the end of period	211,406	202,047

(Notes on the basis of preparation on consolidated financial statements)

1. Overview of capital investments

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

b. Intangible assets
Software for internal use is amortized by the straight line method over its estimated useful life (5 years).
Trademark rights are amortized by the straight line method based on the effective period (20 years).

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.

(Notes on accounting estimates)

1. 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.

(Changes in presentation)

“Gain on reversal of stock acquisition rights,” which was included in "Extraordinary income" under "Other" in the results for the fiscal year ended June 30, 2022, has been recorded independently in the results for the Period. This change is due to “Gain on reversal of stock acquisition rights” comprising more than 10% of the total of “Extraordinary income” in the results for the fiscal year ended June 30, 2023.

Consolidated financial statements for the fiscal year ended June 30, 2022, have been rearranged in order to adopt this change to how the information is presented. As a result, the amount of 1 million JPY, recorded in “Extraordinary income” under “Other,” in the fiscal year ended June 30, 2022, has been rearranged for the Period as 1 million JPY in “Extraordinary income” under “Gain on reversal of stock acquisition rights.”

(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).

(Consolidated balance sheets)

*1. Accumulated depreciation of property and equipment as of June 30, 2022, and June 30, 2023, is as follows.

(Millions of yen)

	June 30, 2022	June 30, 2023
Accumulated depreciation of property and equipment	2,529	2,067

*2. Liquidation of receivables

Of funds raised through the liquidation of receivables, those which were accounted for as financial transactions as of June 30, 2022, and June 30, 2023, are as follows.

(Millions of yen)

	June 30, 2022	June 30, 2023
Short-term borrowings	54,154	55,954
Long-term borrowings	–	23,166

Receivables for the year ended June 30, 2023, contributed to trust to show the source of financing derived from the aforementioned liquidation of receivables are as follows.

(Millions of yen)

	June 30, 2022	June 30, 2023
Other receivable	66,736	105,504

*3. Balance of contract liabilities from contracts with customers

Contract liabilities from contracts with customers are included in “other current liabilities.” The amount of contract liabilities is stated in “Notes (Revenue recognition) (3) 1) Balance of contract liabilities” in the consolidated financial statements.

(Consolidated statements of income)
*1. Revenue from contracts with customers
Net sales is presented without separating revenues arising from contracts with customers and other revenues. The amount of revenue from contracts with customers is stated in "Notes (Segment information) 3. Information regarding amounts of items for each reportable segment such as net sales, profit or loss, assets, and liabilities and information on disaggregation of revenue" in the consolidated financial statements.

*2. Major components of selling, general, and administrative expenses for the years ended June 30, 2022, and June 30, 2023, are as follows.

(Millions of yen)

	June 30, 2022	June 30, 2023
Salaries and wages	10,257	12,298
Commission fees	22,259	23,184
Advertising expenses	37,712	32,023
Provision of allowance for doubtful accounts	5,991	5,745
Provision for bonuses	692	1,096
Provision for point certificates	359	1,036
Provision for share-based compensation	56	135
Retirement benefit expenses	70	200

*3. Total amount of research and development expenses included in general and administrative expenses and manufacturing costs for the years ended June 30, 2022, and June 30, 2023, are as follows.

(Millions of yen)

June 30, 2022	June 30, 2023
398	369

*4. Loss on cancellation of leases
This is due to the recording of the amount equivalent to the loss on cancellation of leases in association with lease cancellations of leased assets.

*5. Cancellation penalty
This is due to the recording of the amount equivalent to the cancellation penalty in association with a decision to relinquish some floors of the Company's head office building.

(Consolidated statements of comprehensive income)

* Amount of reclassification adjustments and tax effects of other comprehensive income for the years ended June 30, 2022, and June 30, 2023

(Millions of yen)

	June 30, 2022	June 30, 2023
Valuation difference on available-for-sale securities:		
Amount arising during the period	–	(0)
Reclassification adjustments	–	–
Before tax effect adjustments	–	(0)
Tax effect adjustments	–	–
Valuation difference on available-for-sale securities	–	(0)
Deferred gains or losses on hedges:		
Amount arising during the period	–	326
Reclassification adjustments	–	(105)
Before tax effect adjustments	–	220
Tax effect adjustments	–	(60)
Deferred gains or losses on hedges	–	160
Foreign currency translation adjustments:		
Amount arising during the period	1,308	747
Reclassification adjustments	–	–
Before tax effect adjustments	1,308	747
Tax effect adjustments	–	–
Foreign currency translation adjustments	1,308	747
Total other comprehensive income	1,308	908

(Consolidated statements of changes in equity)

For the year ended June 30, 2022

1. Class and total number of shares issued and treasury stock

Class	Balance at the beginning of the period (shares)	Increase during the period (shares)	Decrease during the period (shares)	Balance at the end of the period (shares)
Shares issued				
Common stock	157,807,344	3,006,623	–	160,813,967
Treasury stock				
Common stock	2	101	–	103

(Notes)
1. The total number of shares of common stock issued increased by 39,724 shares as of August 15, 2021, due to issuance of new shares for the Restricted Stock Unit (RSU) Incentive Plan pursuant to the resolutions at the Board of Directors meetings held on June 28, 2021, and July 1, 2021.
2. The total number of shares of common stock issued increased by 56,590 shares as of November 15, 2021, due to issuance of new shares for the Restricted Stock Unit (RSU) Incentive Plan pursuant to the resolution at the Board of Directors meeting held on October 19, 2021.
3. The total number of shares of common stock issued increased by 49,075 shares as of February 15, 2022, due to issuance of new shares for the Restricted Stock Unit (RSU) Incentive Plan pursuant to the resolution at the Board of Directors meeting held on January 18, 2022.
4. The total number of shares of common stock issued increased by 52,839 shares as of May 15, 2022, due to issuance of new shares for the Restricted Stock Unit (RSU) Incentive Plan pursuant to the resolution at the Board of Directors meeting held on April 1, 2022.
5. The total number of shares of common stock issued increased by 2,808,395 shares in conjunction with the exercise of stock acquisition rights.
6. The increase of 101 shares in treasury stock of common stock was due to requests for the purchase of shares of less than one unit.

2. Dividends

(1) Dividends paid

Not applicable.

(2) Dividend payments for which the record date falls in the year ended June 30, 2022, and the effective date falls in the year ended June 30, 2023

Not applicable.

3. Stock acquisition rights

Category	Breakdown of stock acquisition rights	Class of shares to be issued upon exercise of stock acquisition rights	Number of shares to be issued upon exercise of stock acquisition rights (Shares)				Balance at the end of the period (Millions of yen)
			Beginning of the period	Increase during the period	Decrease during the period	End of the period	
Submitting company (parent company)	Stock acquisition rights as stock options	–	–	–	–	–	926
Total		–	–	–	–	–	926

For the year ended June 30, 2023

1. Class and total number of shares issued and treasury stock

Class	Balance at the beginning of the period (shares)	Increase during the period (shares)	Decrease during the period (shares)	Balance at the end of the period (shares)
Shares issued				
Common stock	160,813,967	1,651,631	–	162,465,598
Treasury stock				
Common stock	103	–	–	103

(Notes)
1. The total number of shares of common stock issued increased by 52,302 shares as of August 15, 2022, due to issuance of new shares for the Restricted Stock Unit (RSU) Incentive Plan pursuant to the resolution at the Board of Directors meeting held on July 1, 2022.
2. The total number of shares of common stock issued increased by 91,084 shares as of November 15, 2022, due to issuance of new shares for the Restricted Stock Unit (RSU) Incentive Plan pursuant to the resolution at the Board of Directors meeting held on October 21, 2022.
3. The total number of shares of common stock issued increased by 115,327 shares as of February 15, 2023, due to issuance of new shares for the Restricted Stock Unit (RSU) Incentive Plan pursuant to the resolution at the Board of Directors meeting held on January 20, 2023.
4. The total number of shares of common stock issued increased by 122,806 shares as of May 15, 2023, due to issuance of new shares for the Restricted Stock Unit (RSU) Incentive Plan pursuant to the resolution at the Board of Directors meeting held on April 4, 2023.
5. The total number of shares of common stock issued increased by 1,270,112 shares in conjunction with the exercise of stock acquisition rights.

2. Dividends

(1) Dividends paid

Not applicable.

(2) Dividend payments for which the record date falls in the year ended June 30, 2023, and the effective date falls in the year ending June 30, 2024

Not applicable.

3. Stock acquisition rights

Category	Breakdown of stock acquisition rights	Class of shares to be issued upon exercise of stock acquisition rights	Number of shares to be issued upon exercise of stock acquisition rights (Shares)				Balance at the end of the period (Millions of yen)
			Beginning of the period	Increase during the period	Decrease during the period	End of the period	
Submitting company (parent company)	Stock acquisition rights as stock options	–	–	–	–	–	1,092
Total		–	–	–	–	–	1,092

(Consolidated statements of cash flows)

1. Reconciliation between year-end balance of cash and cash equivalents and amount of the line item presented in the consolidated balance sheets for the years ended June 30, 2022, and June 30, 2023

(Millions of yen)

	June 30, 2022	June 30, 2023
Cash on hand and in banks	211,406	196,271
Securities	–	5,775
Cash and cash equivalents	211,406	202,047

2. Material transactions not requiring use of cash or cash equivalents for the years ended June 30, 2022, and June 30, 2023

Assets and liabilities related to finance lease transactions

(Millions of yen)

	June 30, 2022	June 30, 2023
Assets related to finance lease transactions	840	–
Liabilities related to finance lease transactions	924	–

(Note) Amounts of assets and liabilities related to finance lease transactions for the year ended June 30, 2023, are omitted due to their low materiality.

(Lease transactions)

As lessee

1. Finance lease transactions
   Finance lease transactions that do not transfer ownership
   (1) Components of leased assets
   Property and equipment
   Mainly electronic equipment (tools, furniture, and fixtures) for the shipping services of the Company.

   (2) Accounting method for depreciation of leased assets
   The straight line method is applied assuming the lease period as the useful life without residual value.

2. Operating lease transactions
   Future minimum lease payments under non-cancellable operating lease transactions as of June 30, 2022, and June 30, 2023

(Millions of yen)

	June 30, 2022	June 30, 2023
Due within one year	2,006	1,630
Due after more than one year	3,501	1,621
Total	5,507	3,252

(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.

(Retirement benefits)

1. Description of retirement benefit plans

Certain domestic consolidated subsidiaries of the Company have defined benefit plans in the form of lump-sum retirement payment plans, and retirement benefit liability and retirement benefit expenses are calculated using the simplified method. In addition, the overseas consolidated subsidiary of the Company has adopted defined contribution pension plans.

2. Defined benefit plans

(1) Reconciliation between the beginning and ending balances of retirement benefit liability for plans for which the simplified method was applied for the years ended June 30, 2022, and June 30, 2023

(Millions of yen)

	June 30, 2022	June 30, 2023
Retirement benefit liability at the beginning of the year	92	75
Retirement benefits paid	(13)	(24)
Retirement benefit expenses	(3)	7
Payment due to plan transfer	–	(16)
Retirement benefit liability at the end of the year	75	42

(2) Reconciliation between the ending balance of retirement benefit obligation and retirement benefit liability recorded on the consolidated balance sheet as of June 30, 2022, and June 30, 2023

(Millions of yen)

	June 30, 2022	June 30, 2023
Retirement benefit obligation for unfunded plans	75	42
Net retirement benefit liability and assets recorded on the consolidated balance sheet	75	42
Retirement benefit liability	75	42
Net retirement benefit liability and assets recorded on the consolidated balance sheet	75	42

(3) Retirement benefit expenses

Retirement benefit expenses calculated with the simplified method for the years ended June 30, 2022, and June 30, 2023

Year ended June 30, 2022: ¥(3) million
Year ended June 30, 2023: ¥6 million

3. Defined contribution pension plans

The amounts of required contributions to defined contribution plans of the overseas consolidated subsidiary of the Company were ¥76 million for the year ended June 30, 2022, and ¥195 million for the year ended June 30, 2023.

(Stock options)

1. The account and the amount of stock options charged as expenses

(Millions of yen)

	June 30, 2022	June 30, 2023
Cost of sales	284	248
Selling, general, and administrative expenses	969	1,022

2. Amounts recognized as profit due to forfeiture of vested stock options resulting from their non-exercise

(Millions of yen)

	June 30, 2022	June 30, 2023
Gain on reversal of stock acquisition rights	1	2

3. Outline and number of stock options and changes therein

(1) Outline of stock options

	5th Stock Option Plan	10th Stock Option Plan
Title and number of grantees	1 Director and 57 employees of the Company	92 employees of the Company
Number of stock options granted by stock type (Note 1)	Common stock: 1,760,000 shares	Common stock: 1,007,500 shares
Grant date	August 20, 2014	February 14, 2015
Vesting conditions	(Note 3)	(Note 3)
Requisite service period	Not specified	Not specified
Exercise period	August 21, 2016, to August 19, 2024	February 15, 2017, to August 19, 2024

	11th Stock Option Plan	13th Stock Option Plan
Title and number of grantees	1 Audit and Supervisory Board Member of the Company	1 employee of the Company 7 employees of the Company's subsidiaries
Number of stock options granted by stock type (Note 1)	Common stock: 50,000 shares	Common stock: 765,000 shares
Grant date	February 14, 2015	June 27, 2015
Vesting conditions	(Note 2)	(Note 2)
Requisite service period	Not specified	Not specified
Exercise period	February 15, 2017, to August 19, 2024	June 27, 2015, to June 27, 2025

	14th Stock Option Plan	15th Stock Option Plan
Title and number of grantees	105 employees of the Company	1 Audit and Supervisory Board Member of the Company
Number of stock options granted by stock type (Note 1)	Common stock: 1,018,500 shares	Common stock: 25,000 shares
Grant date	August 22, 2015	August 22, 2015
Vesting conditions	(Note 3)	(Note 2)
Requisite service period	Not specified	Not specified
Exercise period	August 23, 2017, to August 21, 2025	August 23, 2017, to August 19, 2024

	18th Stock Option Plan	21st Stock Option Plan
Title and number of grantees	1 Audit and Supervisory Board Member and 152 employees of the Company	2 Directors of the Company
Number of stock options granted by stock type (Note 1)	Common stock: 533,500 shares	Common stock: 800,000 shares
Grant date	February 13, 2016	June 25, 2016
Vesting conditions	(Note 2)	(Note 3)
Requisite service period	Not specified	Not specified
Exercise period	February 14, 2018, to February 12, 2026	June 26, 2018, to February 12, 2026

	25th Stock Option Plan	26th Stock Option Plan
Title and number of grantees	1 Audit and Supervisory Board Member and 268 employees of the Company	12 employees of the Company
Number of stock options granted by stock type (Note 1)	Common stock: 403,950 shares	Common stock: 240,000 shares
Grant date	August 31, 2016	August 31, 2016
Vesting conditions	(Note 2)	(Note 3)
Requisite service period	Not specified	Not specified
Exercise period	September 1, 2018, to August 30, 2026	September 1, 2018, to August 30, 2026

	30th Stock Option Plan	32nd Stock Option Plan
Title and number of grantees	1 Audit and Supervisory Board Member and 353 employees of the Company	5 employees of the Company's subsidiaries
Number of stock options granted by stock type (Note 1)	Common stock: 323,970 shares	Common stock: 122,000 shares
Grant date	February 24, 2017	February 24, 2017
Vesting conditions	(Note 2)	(Note 3)
Requisite service period	Not specified	Not specified
Exercise period	February 25, 2019, to February 23, 2027	February 24, 2017, to February 24, 2027

	34th Stock Option Plan	35th Stock Option Plan
Title and number of grantees	2 Directors, 1 Audit and Supervisory Board Member, 499 employees of the Company, and 1 employee of the Company's subsidiary	2 Directors and 24 employees of the Company
Number of stock options granted by stock type (Note 1)	Common stock: 3,035,100 shares	Common stock: 1,799,000 shares
Grant date	June 23, 2017	June 23, 2017
Vesting conditions	(Note 2)	(Note 3)
Requisite service period	Not specified	Not specified
Exercise period	June 24, 2019, to February 23, 2027	June 24, 2019, to February 23, 2027

	36th Stock Option Plan	38th Stock Option Plan
Title and number of grantees	1 Director of the Company and 21 employees of the Company's subsidiaries	1 Audit and Supervisory Board Member and 570 employees of the Company
Number of stock options granted by stock type (Note 1)	Common stock: 2,136,800 shares	Common stock: 1,331,550 shares
Grant date	June 23, 2017	November 29, 2017
Vesting conditions	(Note 2)	(Note 2)
Requisite service period	Not specified	Not specified
Exercise period	June 23, 2017, to June 23, 2027	November 30, 2019, to November 28, 2027

	39th Stock Option Plan	40th Stock Option Plan
Title and number of grantees	14 employees of the Company	2 Directors of the Company
Number of stock options granted by stock type (Note 1)	Common stock: 42,500 shares	Common stock: 265,522 shares
Grant date	March 13, 2018	October 12, 2020
Vesting conditions	(Note 2)	(Note 2)
Requisite service period	Not specified	Not specified
Exercise period	March 14, 2020, to March 12, 2028	September 25, 2023, to September 24, 2030

	41st Stock Option Plan	42nd Stock Option Plan
Title and number of grantees	6 Senior Vice Presidents of the Company	134 employees of the Company

Number of stock options granted by stock type (Note 1)	Common stock: 295,637 shares	Common stock: 93,123 shares
Grant date	October 12, 2020	March 25, 2021
Vesting conditions	(Note 2)	(Note 3)
Requisite service period	Not specified	Not specified
Exercise period	June 1, 2022, to December 31, 2025	September 1, 2021, to March 31, 2023

	43rd Stock Option Plan	44th Stock Option Plan
Title and number of grantees	1 employee of the Company	49 employees of the Company
Number of stock options granted by stock type (Note 1)	Common stock: 13,858 shares	Common stock: 29,142 shares
Grant date	March 25, 2021	September 30, 2021
Vesting conditions	(Note 3)	(Note 3)
Requisite service period	Not specified	Not specified
Exercise period	September 1, 2021, to September 30, 2023	March 1, 2022, to September 30, 2023

	45th Stock Option Plan	46th Stock Option Plan
Title and number of grantees	17 employees of the Company	12 employees of the Company
Number of stock options granted by stock type (Note 1)	Common stock: 67,400 shares	Common stock: 56,176 shares
Grant date	September 30, 2021	September 30, 2021
Vesting conditions	(Note 2)	(Note 2)
Requisite service period	Not specified	Not specified
Exercise period	March 1, 2022, to September 30, 2024	March 1, 2022, to September 30, 2024

	47th Stock Option Plan	48th Stock Option Plan
Title and number of grantees	46 employees of the Company	3 employees of the Company
Number of stock options granted by stock type (Note 1)	Common stock: 40,439 shares	Common stock: 10,830 shares
Grant date	March 31, 2022	March 31, 2022
Vesting conditions	(Note 2)	(Note 2)
Requisite service period	Not specified	Not specified
Exercise period	September 1, 2022, to March 31, 2024	September 1, 2022, to March 31, 2025

	49th Stock Option Plan	50th Stock Option Plan
Title and number of grantees	1 employee of the Company	108 employees of the Company
Number of stock options granted by stock type (Note 1)	Common stock: 3,530 shares	Common stock: 80,754 shares
Grant date	March 31, 2022	March 31, 2022
Vesting conditions	(Note 2)	(Note 2)
Requisite service period	Not specified	Not specified
Exercise period	September 1, 2022, to March 31, 2025	September 1, 2022, to March 31, 2024

	51st Stock Option Plan	52nd Stock Option Plan
Title and number of grantees	38 employees of the Company	4 employees of the Company
Number of stock options granted by stock type (Note 1)	Common stock: 58,285 shares	Common stock: 31,510 shares
Grant date	September 30, 2022	September 30, 2022
Vesting conditions	(Note 3)	(Note 2)
Requisite service period	Not specified	Not specified
Exercise period	March 1, 2023, to September 30, 2024	March 1, 2023, to September 30, 2025

	53rd Stock Option Plan	54th Stock Option Plan
Title and number of grantees	16 employees of the Company	11 employees of the Company
Number of stock options granted by stock type (Note 1)	Common stock: 79,397 shares	Common stock: 65,160 shares
Grant date	September 30, 2022	September 30, 2022
Vesting conditions	(Note 2)	(Note 2)
Requisite service period	Not specified	Not specified
Exercise period	March 1, 2023, to September 30, 2025	March 1, 2023, to September 30, 2025

	55th Stock Option Plan	56th Stock Option Plan
Title and number of grantees	42 employees of the Company	214 employees of the Company
Number of stock options granted by stock type (Note 1)	Common stock: 45,404 shares	Common stock: 267,679 shares
Grant date	September 30, 2022	April 30, 2023
Vesting conditions	(Note 3)	(Note 2)
Requisite service period	Not specified	Not specified
Exercise period	March 1, 2023, to September 30, 2024	September 1, 2023, to March 31, 2026

	57th Stock Option Plan
Title and number of grantees	3 employees of the Company
Number of stock options granted by stock type (Note 1)	Common stock: 45,269 shares
Grant date	April 30, 2023
Vesting conditions	(Note 2)
Requisite service period	Not specified
Exercise period	September 1, 2023, to March 31, 2026

(Notes) 1. The number of stock options is translated into the number of shares. In addition, the number of shares reflects the 10-for-1 stock split dated October 20, 2017.

2. Presented under the conditions for exercising stock acquisition rights in "IV. Status of Submitting Company, 1. Status of shares, etc., (2) Status of stock acquisition rights"

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

(1) Concerning the stock acquisition rights to be exercised or their right holders, the stock acquisition rights may be exercised as long as the circumstances for the Company's acquisition of the stock acquisition rights provided in the Guidance for Issuing Stock Acquisition Rights have not occurred. The stock acquisition rights may not be exercised if the aforementioned circumstances have occurred, unless otherwise permitted by the Company in exceptional circumstances.

(2) The exercise of the stock acquisition rights requires that the right holder is alive, and in cases where the right holder is deceased, the stock acquisition rights will not be succeeded and can no longer be exercised, unless their inheritance is 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.

(2) Number of stock options and changes therein

The following tables cover stock options that existed during the year ended June 30, 2023. The number of stock options is translated into the number of shares.

1) Number of stock options

	5th Stock Option Plan	10th Stock Option Plan	11th Stock Option Plan	13th Stock Option Plan
Non-vested (shares)				
Outstanding as of June 30, 2022	–	–	–	–
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	–	–
Outstanding as of June 30, 2023	–	–	–	–
Vested (shares)				
Outstanding as of June 30, 2022	2,000	1,000	34,000	3,860
Vested	–	–	–	–
Exercised	2,000	1,000	10,000	–
Forfeited	–	–	–	–
Balance of options not exercised	–	–	24,000	3,860

	14th Stock Option Plan	15th Stock Option Plan	18th Stock Option Plan	21st Stock Option Plan
Non-vested (shares)				
Outstanding as of June 30, 2022	–	–	–	–
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	–	–
Outstanding as of June 30, 2023	–	–	–	–
Vested (shares)				
Outstanding as of June 30, 2022	2,000	25,000	7,600	195,000
Vested	–	–	–	–
Exercised	2,000	–	1,600	195,000
Forfeited	–	–	–	–
Balance of options not exercised	–	25,000	6,000	–

	25th Stock Option Plan	26th Stock Option Plan	30th Stock Option Plan	32nd Stock Option Plan
Non-vested (shares)				
Outstanding as of June 30, 2022	–	–	–	–
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	–	–
Outstanding as of June 30, 2023	–	–	–	–
Vested (shares)				
Outstanding as of June 30, 2022	6,650	8,680	9,050	11,250
Vested	–	–	–	–
Exercised	1,650	8,680	3,300	11,250
Forfeited	–	–	400	–
Balance of options not exercised	5,000	–	5,350	–

	34th Stock Option Plan	35th Stock Option Plan	36th Stock Option Plan	38th Stock Option Plan
Non-vested (shares)				
Outstanding as of June 30, 2022	–	–	–	–
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	–	–
Outstanding as of June 30, 2023	–	–	–	–
Vested (shares)				
Outstanding as of June 30, 2022	1,854,890	73,520	9,240	517,650
Vested	–	–	–	–
Exercised	500,890	72,020	2,070	200,200
Forfeited	500	1,500	–	15,050
Balance of options not exercised	1,353,500	–	7,170	302,400

	39th Stock Option Plan	40th Stock Option Plan	41st Stock Option Plan	42nd Stock Option Plan
Non-vested (shares)				
Outstanding as of June 30, 2022	–	265,522	189,868	23,882
Granted	–	–	–	–
Forfeited	–	–	–	2,495
Vested	–	–	63,286	21,387
Outstanding as of June 30, 2023	–	265,522	126,582	–
Vested (shares)				
Outstanding as of June 30, 2022	9,500	–	–	–
Vested	–	–	63,286	21,387
Exercised	–	–	63,286	21,191
Forfeited	–	–	–	196
Balance of options not exercised	9,500	–	–	–

	43rd Stock Option Plan	44th Stock Option Plan	45th Stock Option Plan	46th Stock Option Plan
Non-vested (shares)				
Outstanding as of June 30, 2022	11,087	18,064	42,370	33,445
Granted	–	–	–	–
Forfeited	5,544	6,943	10,569	6,694
Vested	5,543	11,121	20,697	13,360
Outstanding as of June 30, 2023	–	–	11,104	13,391
Vested (shares)				
Outstanding as of June 30, 2022	–	–	–	–
Vested	5,543	11,121	20,697	13,360
Exercised	5,543	11,121	20,697	13,360
Forfeited	–	–	–	–
Balance of options not exercised	–	–	–	–

	47th Stock Option Plan	48th Stock Option Plan	49th Stock Option Plan	50th Stock Option Plan
Non-vested (shares)				
Outstanding as of June 30, 2022	40,439	10,830	3,530	77,784
Granted	–	–	–	–
Forfeited	14,401	–	–	42,719
Vested	25,551	3,608	1,176	33,830
Outstanding as of June 30, 2023	487	7,222	2,354	1,235
Vested (shares)				
Outstanding as of June 30, 2022	–	–	–	–
Vested	25,551	3,608	1,176	33,830
Exercised	25,338	3,608	1,176	33,431
Forfeited	213	–	–	399
Balance of options not exercised	–	–	–	–

	51st Stock Option Plan	52nd Stock Option Plan	53rd Stock Option Plan	54th Stock Option Plan
Non-vested (shares)				
Outstanding as of June 30, 2022	–	–	–	–
Granted	58,285	31,510	79,397	65,160
Forfeited	39,796	7,337	17,667	2,715
Vested	18,489	7,334	13,130	10,860
Outstanding as of June 30, 2023	–	16,839	48,600	51,585
Vested (shares)				
Outstanding as of June 30, 2022	–	–	–	–
Vested	18,489	7,334	13,130	10,860
Exercised	18,489	7,334	13,130	10,860
Forfeited	–	–	–	–
Balance of options not exercised	–	–	–	–

	55th Stock Option Plan	56th Stock Option Plan	57th Stock Option Plan
Non-vested (shares)			
Outstanding as of June 30, 2022	–	–	–
Granted	45,404	267,679	45,269
Forfeited	35,516	9,639	30,180
Vested	9,888	–	–
Outstanding as of June 30, 2023	–	258,040	15,089
Vested (shares)			
Outstanding as of June 30, 2022	–	–	–
Vested	9,888	–	–
Exercised	9,888	–	–
Forfeited	–	–	–
Balance of options not exercised	–	–	–

(Note) The number of stock options is translated into the number of shares. In addition, the number of shares reflects the 10-for-1 stock split dated October 20, 2017.

2) Per-share price information

	5th Stock Option Plan	10th Stock Option Plan	11th Stock Option Plan	13th Stock Option Plan
Exercise price (Yen)	20	20	20	20
Average stock price upon exercise (Yen)	2,694	2,694	2,814	–
Per-share fair value at grant date (Yen)	–	–	–	–

	14th Stock Option Plan	15th Stock Option Plan	18th Stock Option Plan	21st Stock Option Plan
Exercise price (Yen)	20	20	102	102
Average stock price upon exercise (Yen)	2,817	–	2,817	2,814
Per-share fair value at grant date (Yen)	–	–	–	–

	25th Stock Option Plan	26th Stock Option Plan	30th Stock Option Plan	32nd Stock Option Plan
Exercise price (Yen)	332	332	353	353
Average stock price upon exercise (Yen)	2,371	2,782	2,396	3,026
Per-share fair value at grant date (Yen)	–	–	–	–

	34th Stock Option Plan	35th Stock Option Plan	36th Stock Option Plan	38th Stock Option Plan
Exercise price (Yen)	353	353	353	3,000
Average stock price upon exercise (Yen)	3,154	2,581	2,877	3,212
Per-share fair value at grant date (Yen)	–	–	–	–

	39th Stock Option Plan	40th Stock Option Plan	41st Stock Option Plan	42nd Stock Option Plan
Exercise price (Yen)	3,000	1	1	1
Average stock price upon exercise (Yen)	–	–	3,013	2,274
Per-share fair value at grant date (Yen)	–	5,819	5,819	5,079

	43rd Stock Option Plan	44th Stock Option Plan	45th Stock Option Plan	46th Stock Option Plan
Exercise price (Yen)	1	1	1	1
Average stock price upon exercise (Yen)	2,175	2,241	2,259	2,280
Per-share fair value at grant date (Yen)	5,079	6,159	6,159	6,159

	47th Stock Option Plan	48th Stock Option Plan	49th Stock Option Plan	50th Stock Option Plan
Exercise price (Yen)	1	1	1	1
Average stock price upon exercise (Yen)	2,276	2,280	2,280	2,273
Per-share fair value at grant date (Yen)	3,224	3,224	3,224	3,224

	51st Stock Option Plan	52nd Stock Option Plan	53rd Stock Option Plan	54th Stock Option Plan
Exercise price (Yen)	1	1	1	1
Average stock price upon exercise (Yen)	2,386	2,386	2,386	2,386
Per-share fair value at grant date (Yen)	1,933	1,933	1,933	1,933

	55th Stock Option Plan	56th Stock Option Plan	57th Stock Option Plan
Exercise price (Yen)	1	1	1
Average stock price upon exercise (Yen)	2,386	–	–
Per-share fair value at grant date (Yen)	1,933	2,317	2,317

(Note) The number of shares reflects the 10-for-1 stock split dated October 20, 2017.

4. Method for estimating the per-share fair value of stock options granted during the year ended June 30, 2023
   The method of estimating the grant-date per-share fair value of stock options is calculated using the stock price of the Company's stock on the grant date, as this value is deemed to approximate that stock price.

5. Method for estimating the number of stock options vested
   Because it is difficult to reasonably estimate the number of options that will expire in the future, the number of stock options vested only reflects the number of options that have actually been forfeited.

6. Aggregate intrinsic value as of June 30, 2023, and aggregate intrinsic value on the dates of exercise of stock options exercised during the year ended June 30, 2023, when estimating the per-share fair value of stock options by using the intrinsic value
   (1) Aggregate intrinsic value as of June 30, 2023: ¥4,429 million
   (2) Aggregate intrinsic value on the dates of exercise of stock options exercised during the year ended June 30, 2023: ¥2,247 million

(Tax effect accounting)

1. Major components of deferred tax assets and deferred tax liabilities

(Millions of yen)

	As of June 30, 2022	As of June 30, 2023
Deferred tax assets		
Net operating loss carryforwards (Note)	28,129	28,210
Loss on devaluation of investment securities	183	263
Accrued enterprise tax	148	464
Depreciation and amortization	1,489	2,801
Provision for bonuses	480	609
Allowance for doubtful accounts	3,906	5,794
Accrued expenses	725	1,020
Provision for point certificates	120	336
Retirement benefit liability	23	12
Deferred tax credit	737	985
Stock acquisition rights	262	330
Other	656	302
Subtotal deferred tax assets	36,863	41,129
Valuation allowance for net operating loss carryforwards (Note)	(27,265)	(27,350)
Valuation allowance for the sum of deductible temporary differences	(6,181)	(5,916)
Valuation allowance	(33,446)	(33,266)
Total deferred tax assets	3,417	7,862
Offset with deferred tax liabilities	–	(60)
Net deferred tax assets	3,417	7,802
Deferred tax liabilities		
Trademark right	(140)	(123)
Deferred gains or losses on hedges	–	(60)
Other	(22)	(14)
Total deferred tax liabilities	(162)	(198)
Offset with deferred tax assets	–	60
Net deferred tax liabilities	(162)	(138)

(Note) The amounts of net operating loss carryforwards and related deferred tax assets by carryforward expiration date

As of June 30, 2022

(Millions of yen)

	Due within one year	Due after one year and before two years	Due after two years and before three years	Due after three years and before four years	Due after four years and before five years	Due after more than five years	Total
Net operating loss carryforwards (*1)	–	–	–	–	–	28,129	28,129
Valuation allowance	–	–	–	–	–	(27,265)	(27,265)
Deferred tax assets	–	–	–	–	–	864	(*2) 864

(*1) Net operating loss carryforwards represent the amount multiplied by the effective statutory tax rate.
(*2) As a result of taking into account estimated taxable income based on future earning power of each company with net operating loss carryforwards, it has been determined that deferred tax assets related to net operating loss carryforwards are recoverable.

As of June 30, 2023

(Millions of yen)

	Due within one year	Due after one year and before two years	Due after two years and before three years	Due after three years and before four years	Due after four years and before five years	Due after more than five years	Total
Net operating loss carryforwards (*1)	–	–	–	–	–	28,210	28,210
Valuation allowance	–	–	–	–	–	(27,350)	(27,350)
Deferred tax assets	–	–	–	–	–	859	(*2) 859

(*1) Net operating loss carryforwards represent the amount multiplied by the effective statutory tax rate.
(*2) As a result of taking into account estimated taxable income based on future earning power of each company with net operating loss carryforwards, it has been determined that deferred tax assets related to net operating loss carryforwards are recoverable.

2. Reconciliation between the effective statutory tax rate and the actual effective tax rate after the application of tax effect accounting when there is a major difference between them

(%)

	As of June 30, 2022	As of June 30, 2023
Effective statutory tax rate	–	30.6
(Adjustments)		
Change in valuation allowance	–	(6.0)
Tax credit	–	(2.4)
Other	–	(1.0)
Actual effective tax rate after the application of tax effect accounting	–	21.2

(Note) The information as of June 30, 2022, is omitted because a net loss before income taxes was recorded.

3. Accounting treatment and disclosure of corporate tax, local tax, and tax effect accounting
The Company and certain domestic consolidated subsidiaries have applied the group tax sharing system from the year ended June 30, 2023. In addition, the accounting treatment and disclosure of corporate tax, local tax, and tax effect accounting are based on “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ Practical Issues Task Force Report No. 42, August 12, 2021).

(Asset retirement obligations)
Asset retirement obligations for the years ended June 30, 2022, and June 30, 2023, are omitted due to their low materiality.

(Revenue recognition)

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

Information on disaggregation of revenue from contracts with customers is stated in "Notes (Segment information) 3. Information regarding amounts of items for each reportable segment such as net sales, profit or loss, assets, and liabilities and information on disaggregation of revenue."

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

The information is provided in "(4) Standards for recognition of significant revenues and expenses" under "4. Accounting policies" of "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 following fiscal year from contracts with customers that existed as of June 30, 2023

1) Balance of contract liabilities

For the year ended June 30, 2022

(Millions of yen)

Contract liabilities (beginning balance)	1,925
Contract liabilities (ending balance)	2,560

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 year ended June 30, 2022, the amount included in the beginning balance of contract liabilities was ¥1,925 million.

For the year ended June 30, 2023

(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 year ended June 30, 2023, 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.

(Segment information)

[Segment information]

1. Overview of reportable segments

The reportable segments of the Group are components of the Company for which discrete financial information is available and regularly reviewed by the Board of Directors to make decisions about allocation of managerial resources and to assess their performance. The Group classifies the reportable segments as “Japan Region,” for which the Group operates its core business of the *Mercari* marketplace in Japan, and “US,” for which the Group operates the *Mercari* (US) marketplace app in the United States of America. The Group also proposes and determines Group strategies along these segment lines.

Note that the principal information included in each reportable segment is as follows.

Japan Region	Marketplace	Operation of a marketplace app in Japan
	Fintech	Payment- and finance-related business in Japan
US	Marketplace	Operation of a marketplace app in the US

2. Method for calculating amounts of items for each reportable segment such as net sales, profit or loss, assets, and liabilities

The accounting method of the business segments reported is in accordance with the accounting policies adopted to prepare consolidated financial statements.

Intersegment internal income or transfers are based on market prices.

3. Information regarding amounts of items for each reportable segment such as net sales, profit or loss, assets, and liabilities and information on disaggregation of revenue

For the year ended June 30, 2022

(Millions of yen)

	Reportable segment			Other	Total	Adjustments	Amount reported on the consolidated statements of income
	Japan Region	US	Total				
Net sales							
Marketplace	85,322	41,611	126,934	–	126,934	–	126,934
Fintech	14,434	–	14,434	–	14,434	–	14,434
Other	–	–	–	5,680	5,680	–	5,680
Revenue from contracts with customers	99,757	41,611	141,368	5,680	147,049	–	147,049
Sales to external customers	99,757	41,611	141,368	5,680	147,049	–	147,049
Intersegment net sales or transfers	398	–	398	765	1,164	(1,164)	–
Total	100,156	41,611	141,767	6,446	148,214	(1,164)	147,049
Segment profit (loss)	16,624	(12,135)	4,489	(214)	4,274	(7,990)	(3,715)
Other items							
Depreciation	420	117	537	151	689	129	818

(Notes)
1. Total amount of segment profit (loss) agrees with operating loss presented in the consolidated statements of income.
2. Adjustments for segment profit (loss) refer mainly to general and administrative expenses that do not belong to any reportable segment.
3. The “Other” column includes business segments that are not included in the reportable segments, such as the sports business.
4. For “US,” the full amount of consideration received from the customer is recognized as distribution sales.
5. “Net sales” of ¥147,049 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.
6. The segment asset and liability amounts are not disclosed because the Company does not allocate assets and liabilities to reportable segments.

For the year ended June 30, 2023

(Millions of yen)

	Reportable segment			Other	Total	Adjustments	Amount reported on the consolidated statements of income
	Japan Region	US	Total				
Net sales							
Marketplace	101,714	44,440	146,155	–	146,155	–	146,155
Fintech	20,485	–	20,485	–	20,485	–	20,485
Other	–	–	–	5,423	5,423	–	5,423
Revenue from contracts with customers	122,199	44,440	166,640	5,423	172,064	–	172,064
Sales to external customers	122,199	44,440	166,640	5,423	172,064	–	172,064
Intersegment net sales or transfers	–	–	–	1,176	1,176	(1,176)	–
Total	122,199	44,440	166,640	6,599	173,240	(1,176)	172,064
Segment profit (loss)	34,464	(8,804)	25,660	(528)	25,131	(8,108)	17,023
Other items							
Depreciation	497	132	629	163	792	140	933

(Notes)
1. Total amount of segment profit (loss) agrees with operating profit presented in the consolidated statements of income.
2. Adjustments for segment profit (loss) refer mainly to general and administrative expenses that do not belong to any reportable segment.
3. The “Other” column includes business segments that are not included in the reportable segments, such as the sports business.
4. For “US,” the full amount of consideration received from the customer is recognized as distribution sales.
5. “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.
6. The segment asset and liability amounts are not disclosed because the Company does not allocate assets and liabilities to reportable segments.

4. Matters related to changes in reportable segments

Previously, the Group operated as a single segment, the marketplace business. Commencing the year ended June 30, 2023, the Group changed its reportable segments to those of Japan Region and US.

This change was made because the Group transitioned to a new management execution structure from January 1, 2022, and changed its corporate management classification from July 1, 2022, with the objectives of further strengthening the strategy of the overall business structure in Japan and further expanding globally.

[Related information]

For the year ended June 30, 2022

1. Information by product and service

The information is omitted because the same information is disclosed in “[Segment information].”

2. Information by geographical area

(1) Net sales

The information is omitted because the same information is disclosed in “[Segment information].”

(2) Property and equipment

This information is omitted because property and equipment in Japan accounted for more than 90% of property and equipment amounts on the consolidated balance sheets.

3. Information by major customer

This information is omitted because there were no external customers who accounted for 10% or more of net sales in the consolidated statement of income.

For the year ended June 30, 2023

1. Information by product and service

The information is omitted because the same information is disclosed in “[Segment information].”

2. Information by geographical area

(1) Net sales

The information is omitted because the same information is disclosed in “[Segment information].”

(2) Property and equipment

This information is omitted because property and equipment in Japan accounted for more than 90% of property and equipment amounts on the consolidated balance sheets.

3. Information by major customer

This information is omitted because there were no external customers who accounted for 10% or more of net sales in the consolidated statement of income.

[Impairment loss of non-current assets by reportable segment]

For the year ended June 30, 2022

Not applicable.

For the year ended June 30, 2023

Not applicable.

[Amortization of goodwill and unamortized balance by reportable segment]

For the year ended June 30, 2022

Not applicable.

For the year ended June 30, 2023

Not applicable.

[Gain recognized on negative goodwill by reportable segment]

For the year ended June 30, 2022

Not applicable.

For the year ended June 30, 2023

Not applicable.

[Information on related parties]

Related party transactions

Transactions between the company submitting the consolidated financial statements and related parties

Officers, major shareholders (individuals only), etc. of the company submitting the consolidated financial statements

For the year ended June 30, 2022

Category	Name	Percentage of voting rights owning or owned	Relationship	Details of transaction	Transaction amount (Millions of yen)	Account	Ending balance (Millions of yen)
Officer	Shintaro Yamada	Directly (owned) 23.97%	Representative Director of the Company	Exercise of stock acquisition rights (Note 1)	43	–	–
Officer	Fumiaki Koizumi	Directly (owned) 0.93%	Director of the Company	Exercise of stock acquisition rights (Note 2)	11	–	–

Officer	John Lagerling	Directly (owned) 0.02%	Senior Vice President of the Company	Exercise of stock acquisition rights (Note 3)	152	–	–
Officer	Naoki Aoyagi	Directly (owned) 0.04%	Senior Vice President of the Company	Exercise of stock acquisition rights (Note 4)	1,350	–	–
Officer	Jun Yokota	Directly (owned) 0.04%	Senior Vice President of the Company	Exercise of stock acquisition rights (Note 5)	26	–	–

(Notes)

1. Exercise of stock acquisition rights in the year ended June 30, 2022, concerning those granted pursuant to the resolutions at the Board of Directors meetings held on December 12, 2014, and June 24, 2016. Transaction amounts listed above are amounts paid upon exercise of stock options in the year ended June 30, 2022.
2. Exercise of stock acquisition rights in the year ended June 30, 2022, 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 year ended June 30, 2022.
3. Exercise of stock acquisition rights in the year ended June 30, 2022, concerning those granted pursuant to the resolutions at the Board of Directors meetings held on June 22, 2017, and September 25, 2020. Transaction amounts listed above are amounts paid upon exercise of stock options in the year ended June 30, 2022.
4. Exercise of stock acquisition rights in the year ended June 30, 2022, 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 year ended June 30, 2022.
5. Exercise of stock acquisition rights in the year ended June 30, 2022, concerning those granted pursuant to the resolutions at the Board of Directors meetings held on June 22, 2017, November 28, 2017, and September 25, 2020. Transaction amounts listed above are amounts paid upon exercise of stock options in the year ended June 30, 2022.

For the year ended June 30, 2023

Category	Name	Percentage of voting rights owning or owned	Relationship	Details of transaction	Transaction amount (Millions of yen)	Account	Ending balance (Millions of yen)
Officer	Shintaro Yamada	Directly (owned) 24.12%	Representative Director of the Company	Exercise of stock acquisition rights (Note 1)	182	–	–
Officer	Fumiaki Koizumi	Directly (owned) 0.94%	Director of the Company	Exercise of stock acquisition rights (Note 2)	11	–	–
Officer	Naoki Aoyagi	Directly (owned) 0.18%	Senior Vice President of the Company	Exercise of stock acquisition rights (Note 3)	600	–	–

(Notes)
1. Exercise of stock acquisition rights in the year ended June 30, 2023, 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 year ended June 30, 2023.
2. Exercise of stock acquisition rights in the year ended June 30, 2023, 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 year ended June 30, 2023.
3. Exercise of stock acquisition rights in the year ended June 30, 2023, 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 year ended June 30, 2023.

(Per-share information)

(Yen)

	June 30, 2022	June 30, 2023
Net assets per share	228.57	329.80
Basic earnings (loss) per share	(47.34)	81.01
Diluted earnings per share	–	77.36

(Notes) 1. Information on diluted earnings per share for the year ended June 30, 2022, is omitted since, although potential shares did exist, the recorded figure was a basic loss per share.

2. The basis for the calculation of basic earnings (loss) per share and diluted earnings per share is as follows.

	June 30, 2022	June 30, 2023
Basic earnings (loss) per share		
Net profit (loss) attributable to owners of parent (Millions of yen)	(7,569)	13,070
Amount not attributable to common shareholders (Millions of yen)	–	–
Net profit (loss) attributable to owners of parent related to common stock (Millions of yen)	(7,569)	13,070
Average number of shares of common stock outstanding during the period (Shares)	159,908,850	161,334,419
Diluted earnings per share		
Increase in number of common stock (Shares)	–	7,618,161
Outline of potential common stock excluded from the computation of diluted earnings per share due to its non-dilutive effect	Stock options Number of stock acquisition rights: 1,468,345 Number of common stock: 3,487,711 Restricted Stock Units Number of Restricted Stock Units: 478,312 Number of common stock: 478,312 Zero Coupon Convertible Bonds Number of stock acquisition rights: 5,000 Number of common stock: 5,349,882	–

(Significant subsequent events)

Not applicable.

(5) [Consolidated supplementary schedules]

[Schedule of bonds payable]

Company name	Security titles	Date of issuance	Balance at the beginning of the current period (Millions of yen)	Balance at the end of the current period (Millions of yen)	Interest rate (%)	Pledge	Maturity
Mercari, Inc.	Zero Coupon Convertible Bonds due in 2026	July 14, 2021	25,000	25,000	–	None	July 14, 2026
Mercari, Inc.	Zero Coupon Convertible Bonds due in 2028	July 14, 2021	25,000	25,000	–	None	July 14, 2028
Total	–	–	50,000	50,000	–	–	–

(Notes) 1. Description of the convertible-bond-type bonds with stock acquisition rights is provided below.

Security titles	Zero Coupon Convertible Bonds due in 2026	Zero Coupon Convertible Bonds due in 2028
Shares to be issued	Common stock	Common stock
Issuance price of stock acquisition rights (Yen)	Without contribution	Without contribution
Issuance price of shares (Yen)	9,346	9,346
Total amount of issuance price (Millions of yen)	25,000	25,000
Total issuance price of shares issued upon exercise of stock acquisition rights (Millions of yen)	–	–
Percentage of grant of stock acquisition rights (%)	100	100
Exercise period of stock acquisition rights	July 28, 2021, to June 30, 2026	July 28, 2021, to June 30, 2028

(Note) When there is a request from a person intending to exercise stock acquisition rights, in place of the redemption of the full amount of the bonds to which the stock acquisition rights are attached, it is deemed that the amount to be paid upon exercise of the stock acquisition rights has been paid in full. In addition, when stock acquisition rights are exercised, it is deemed that said request has been received.

2. Payable amounts under the redemption schedule for the five years after the consolidated balance sheet date are as follows:

(Millions of yen)

Due within one year	Due after one year and before two years	Due after two years and before three years	Due after three years and before four years	Due after four years and before five years
–	–	–	25,000	–

[Schedule of borrowings]

(Millions of yen, unless otherwise stated)

Category	Balance at the beginning of the current period	Balance at the end of the current period	Average interest rate (%)	Due date
Short-term borrowings	54,254	55,121	0.39	–
Current portion of long-term borrowings	1,348	16,713	0.39	–
Current portion of lease liabilities	193	104	3.94	
Long-term borrowings (excluding current portion)	25,749	35,696	0.53	From 2024 to 2027
Lease liabilities (excluding current portion)	816	370	3.94	From 2024 to 2028
Total	82,361	108,007	–	–

(Notes) 1. The average interest rate indicates the weighted-average interest rate for the balance of borrowings as of June 30, 2023.
2. The interest rate as of June 30, 2023, is used for borrowings with variable interest rates.
3. The amounts of long-term borrowings and lease liabilities (excluding current portion) to be repaid within five years after June 30, 2023, are as follows.

(Millions of yen)

	Due after one year and before two years	Due after two years and before three years	Due after three years and before four years	Due after four years and before five years
Long-term borrowings	14,894	9,636	1,165	10,000
Lease liabilities	106	106	104	52

[Schedule of asset retirement obligations]
Pursuant to the provision of Article 92-2 of the Regulations on Consolidated Financial Statements, the information is omitted, because the amounts of asset retirement obligations at the beginning and the end of the year ended June 30, 2023, were not more than 1% of the total of liabilities and net assets at the beginning and the end of the year ended June 30, 2023, respectively.

(2) [Other]
Quarterly information for the year ended June 30, 2023

(Cumulative period)	Three months ended September 30, 2022	Six months ended December 31, 2022	Nine months ended March 31, 2023	Year ended June 30, 2023
Net sales (Millions of yen)	40,029	84,285	127,913	172,064
Net profit before income taxes (Millions of yen)	2,965	5,221	10,976	16,389
Net profit attributable to owners of parent (Millions of yen)	412	1,202	5,056	13,070
Basic earnings per share (Yen)	2.56	7.47	31.38	81.01

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (Yen)	2.56	4.91	23.87	49.50