Note: This document is an English translation of the original Japanese language document and has been prepared solely for reference purposes. No warranties or assurances are given regarding the accuracy or completeness of this English translation. In the event of any discrepancy between this English translation and the original Japanese language document, the original Japanese language document shall prevail in all respects.

Items Disclosed Online in Relation to the Notice of the 8th Annual General Meeting of Shareholders

Business Report

1. Status of stock acquisition rights
2. System to ensure the appropriateness of business operations and the status of its implementation

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Mercari, Inc.

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

Business Report

1. Status of stock acquisition rights

(1) Status of stock acquisition rights (as of June 30, 2020)

Name (Issue date)	Number of stock acquisition rights (Units)	Class and number of shares to be issued upon exercise of stock acquisition rights (Shares)	Amount paid per unit	Exercise price per share (Yen)	Exercise period of stock acquisition rights
5th series stock acquisition rights (August 20, 2014)	400	Common stock 4,000	Without contribution	20	From August 21, 2016 to August 19, 2024
8th series stock acquisition rights (December 22, 2014)	32,000	Common stock 320,000	Without contribution	20	From December 23, 2016 to August 19, 2024
9th series stock acquisition rights (December 22, 2014)	21	Common stock 210	Without contribution	20	From December 22, 2014 to December 22, 2024
10th series stock acquisition rights (February 14, 2015)	350	Common stock 3,500	Without contribution	20	From February 15, 2017 to August 19, 2024
11th series stock acquisition rights (February 14, 2015)	4,900	Common stock 49,000	Without contribution	20	From February 15, 2017 to August 19, 2024
13th series stock acquisition rights (June 27, 2015)	386	Common stock 3,860	Without contribution	20	From June 27, 2015 to June 27, 2025
14th series stock acquisition rights (August 22, 2015)	2,100	Common stock 21,000	Without contribution	20	From August 23, 2017 to August 21, 2025
15th series stock acquisition rights (August 22, 2015)	2,500	Common stock 25,000	Without contribution	20	From August 23, 2017 to August 19, 2024
18th series stock acquisition rights (February 13, 2016)	1,740	Common stock 17,400	Without contribution	102	From February 14, 2018 to February 12, 2026
21st series stock acquisition rights (June 25, 2016)	78,040	Common stock 780,400	Without contribution	102	From June 26, 2018 to February 12, 2026
22nd series stock acquisition rights (June 25, 2016)	10,073	Common stock 100,730	Without contribution	102	From June 26, 2018 to February 12, 2026
24th series stock acquisition rights (June 25, 2016)	1,000	Common stock 10,000	Without contribution	102	From June 26, 2018 to February 12, 2026
25th series stock acquisition rights (August 31, 2016)	1,960	Common stock 19,600	Without contribution	332	From September 1, 2018 to August 30, 2026
26th series stock acquisition rights (August 31, 2016)	10,549	Common stock 105,490	Without contribution	332	From September 1, 2018 to August 30, 2026
27th series stock acquisition rights (August 31, 2016)	5,017	Common stock 50,170	Without contribution	332	From August 31, 2016 to August 31, 2026
28th series stock acquisition rights (December 14, 2016)	1,100	Common stock 11,000	Without contribution	332	From December 15, 2018 to August 30, 2026

Name (Issue date)	Number of stock acquisition rights (Units)	Class and number of shares to be issued upon exercise of stock acquisition rights (Shares)	Amount paid per unit	Exercise price per share (Yen)	Exercise period of stock acquisition rights
29th series stock acquisition rights (December 14, 2016)	3,786	Common stock 37,860	Without contribution	332	From December 15, 2018 to August 30, 2026
30th series stock acquisition rights (February 24, 2017)	5,115	Common stock 51,150	Without contribution	353	From February 25, 2019 to February 23, 2027
31st series stock acquisition rights (February 24, 2017)	3,925	Common stock 39,250	Without contribution	353	From February 25, 2019 to February 23, 2027
32nd series stock acquisition rights (February 24, 2017)	3,449	Common stock 34,490	Without contribution	353	From February 24, 2017 to February 24, 2027
33rd series stock acquisition rights (March 11, 2017)	2,000	Common stock 20,000	Without contribution	353	From March 12, 2019 to February 23, 2027
34th series stock acquisition rights (June 23, 2017)	210,663	Common stock 2,106,630	Without contribution	353	From June 24, 2019 to February 23, 2027
35th series stock acquisition rights (June 23, 2017)	127,484	Common stock 1,274,840	Without contribution	353	From June 24, 2019 to February 23, 2027
36th series stock acquisition rights (June 23, 2017)	63,230	Common stock 632,300	Without contribution	353	From June 23, 2017 to June 23, 2027
37th series stock acquisition rights (June 23, 2017)	862	Common stock 8,620	Without contribution	353	From June 24, 2019 to February 23, 2027
38th series stock acquisition rights (November 29, 2017)	1,198,150	Common stock 1,198,150	Without contribution	3,000	From November 30, 2019 to November 28, 2027
39th series stock acquisition rights (March 13, 2018)	27,500	Common stock 27,500	Without contribution	3,000	From March 14, 2020 to March 12, 2028
Total	1,798,300	Common stock 6,952,150	–	–	–

(2) Stock acquisition rights held by Directors and Audit and Supervisory Board Members of Mercari, Inc. (the "Company") which were issued as consideration for their performance of duties (as of June 30, 2020)

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

Name (Issue date)	Number of holders	Number of stock acquisition rights held (Units)	Class and number of shares to be issued upon exercise of stock acquisition rights (Shares)
8th series stock acquisition rights (December 22, 2014)	1	32,000	Common stock 320,000
21st series stock acquisition rights (June 25, 2016)	2	78,040	Common stock 780,400
22nd series stock acquisition rights (June 25, 2016)	1	5,000	Common stock 50,000
31st series stock acquisition rights (February 24, 2017)	1	3,300	Common stock 33,000
34th series stock acquisition rights (June 23, 2017)	2	180,000	Common stock 1,800,000
35th series stock acquisition rights (June 23, 2017)	2	75,009	Common stock 750,090
36th series stock acquisition rights (June 23, 2017)	1	43,334	Common stock 433,340
38th series stock acquisition rights (November 29, 2017)	1	1,000,000	Common stock 1,000,000

(Notes)
1. On October 20, 2017, the Company conducted a 10:1 stock split of its common stock, pursuant to the resolution of the Board of Directors on September 14, 2017. The number of shares to be issued upon exercise of stock acquisition rights, amount to be paid upon exercise of stock acquisition rights, and share issue price and amount of additional paid-in capital if shares are issued owing to the exercise of stock acquisition rights have been adjusted as a result.
2. The conditions for exercising the 8th series, 21st series, 22nd series, 31st series, 34th series, 35th series, 36th series, and 38th series stock acquisition rights are as follows:
   1) Concerning the stock acquisition rights to be exercised or their right holders, the stock acquisition rights may be exercised as long as the circumstances for the Company's acquisition of the stock acquisition rights provided in the Guidance for Issuing Stock Acquisition Rights have not occurred. The stock acquisition rights may not be exercised if the aforementioned circumstances have occurred, unless otherwise permitted by the Company in exceptional circumstances.
   2) The exercise of the stock acquisition rights requires that the right holder is alive, and in cases where the right holder is deceased, the stock acquisition rights will not be succeeded and can no longer be exercised, unless otherwise permitted by the Company in exceptional circumstances.
   3) Other conditions concerning the exercise of the stock acquisition rights shall be governed by agreements on the allotment of the stock acquisition rights entered into between the Company and a person who has received the allotment of the stock acquisition rights based on the resolution of the Board of Directors where the issuance of the stock acquisition rights was decided.
3. The above includes the stock acquisition rights held by two Directors that were delivered to them prior to their appointments as Director.

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

Name (Issue date)	Number of holders	Number of stock acquisition rights held (Units)	Class and number of shares to be issued upon exercise of stock acquisition rights (Shares)
11th series stock acquisition rights (February 14, 2015)	1	4,900	Common stock 49,000
15th series stock acquisition rights (August 22, 2015)	1	2,500	Common stock 25,000
18th series stock acquisition rights (February 13, 2016)	1	600	Common stock 6,000
25th series stock acquisition rights (August 31, 2016)	1	300	Common stock 3,000
30th series stock acquisition rights (February 24, 2017)	1	150	Common stock 1,500
34th series stock acquisition rights (June 23, 2017)	1	300	Common stock 3,000
38th series stock acquisition rights (November 29, 2017)	1	750	Common stock 750

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

2. The conditions for exercising the 11th series, 15th series, 18th series, 25th series, 30th series, 34th series, and 38th series stock acquisition rights are as follows:

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

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

Not applicable.

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

(1) System to ensure the appropriateness of business operations

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

1) System to ensure that Directors and employees comply with laws, regulations and the Articles of Incorporation in performing their duties

   a. The Company ensures that Directors and employees have a sufficient awareness of compliance and abide by laws, regulations, the Articles of Incorporation and internal regulations in performing their duties.

   b. The Company, in cooperation with attorneys, the police and other professionals, takes a resolute stance against anti-social forces that threaten the order and safety of civil society.

   c. In order to satisfy compliance with laws, regulations and other rules, as well as propriety in accordance with management decisions, the Board of Directors supervises decisions in executing business and supervision of the duties of Directors.

   d. Audit and Supervisory Board Members exercise their authority as stipulated by laws and regulations to audit Directors' performance of their duties.

   e. The Company provides an internal reporting hotline and establishes a system for consultation and internal compliance reporting ("Whistleblowing System").

   f. Directors and employees who violate laws or regulations are subject to discipline in accordance with the Rules of Employment, etc.

2) System related to the storage and management of information for the performance of Directors' duties

   a. The Company establishes the Document Management Regulations and appropriately retains and manages important documents containing information relating to the performance of duties by Directors (including electromagnetic records), such as minutes of important meetings, in accordance with the provisions of those regulations.

   b. The Company establishes the Information Management Regulations to protect and manage information assets.

3) Regulations and other systems concerning management of the risk of losses

   a. Directors ascertain the various risks associated with the Company's business and endeavor to identify, assess, and manage these risks with an understanding of the importance of performing risk management in an integrated manner.

   b. The Company establishes a risk management system to prepare for disasters, accidents, system failures and other unforeseen circumstances.

4) System to ensure the efficient performance of duties by Directors

   a. The Board of Directors operates in accordance with the Articles of Incorporation and Board of Directors Regulations and holds meetings regularly every month, with additional meetings as necessary.

   b. Directors perform their duties efficiently, flexibly and swiftly by working closely to exchange opinions and share information.

   c. To ensure the efficient performance of duties by Directors, the Company establishes the Regulations for Company Organization, the Regulations for Administrative Authority and the Approval Regulations.

5) System to ensure that employees comply with laws, regulations and the Articles of Incorporation in performing their duties

   a. The Company stipulates official authority, clearly defines responsibilities and authority, and establishes a system for the performance of duties in each division.

   b. The Company prepares and uses the necessary approval systems, internal regulations, manuals, etc. and makes these known to employees.

   c. The Company establishes a personal information protection system and designates a personal information protection manager who plays a central role in the operation of the system. Furthermore, the Company establishes an administrative office under the direction of the manager and endeavors to continuously improve the protection of personal information.

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

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

   a. In order to promote the propriety of management throughout the Group, the Company stipulates Regulation for Group Companies Management. The Company respects the autonomy of subsidiaries, but the Company requires the subsidiaries to share information on operations regarding important matters with the Company in advance as provided for by the same regulations to ensure appropriate business operations as part of the Group under the Company's involvement.

   b. The regulations and other systems concerning management of the risk of losses as described in 3) apply to all companies within the Group, and the Company manages the risk of the Group as a whole in an all-encompassing and comprehensive manner.

   c. The authority and responsibilities of subsidiaries in performing their duties are clearly stipulated in the Regulation for the Division of Duties, Regulation for Administrative Authority and other internal regulations in order for subsidiaries to carry out business operations efficiently.

   d. The Internal Audit Office of the Company carries out an internal audit of the Group's business activities to ensure they are appropriate and in compliance with laws, regulations and the Articles of Incorporation. The audit results are reported to the Representative Director and shared with Audit and Supervisory Board Members and independent auditor.

7) Matters related to employees who are requested by Audit and Supervisory Board Members to assist with their duties and matters related to the independence of those employees from Directors

   a. Audit and Supervisory Board Members can request the assignment of employees ("Employees Assisting Audit and Supervisory Board Members") to assist with their duties to the Board of Directors.

   b. Employees Assisting Audit and Supervisory Board Members shall exclusively work under Audit and Supervisory Board Members and shall not concurrently perform duties for other divisions or departments. Employees Assisting Audit and Supervisory Board Members will follow the directions and instructions of Audit and Supervisory Board Members to collect all necessary information.

   c. Reassignment, performance evaluations and disciplinary action related to Employees Assisting Audit and Supervisory Board Members require the prior consent of Audit and Supervisory Board Members.

   d. Employees Assisting Audit and Supervisory Board Members can accompany Audit and Supervisory Board Members to participate in Board of Directors meetings and other important meetings, as well as regular meetings held with Representative Director and independent auditor to exchange opinions. Furthermore, if necessary, they may receive advice on auditing tasks from attorneys, certified public accountants and other professionals.

8) System for Directors and employees to report to Audit and Supervisory Board Members

   a. Directors and employees will report the following matters to Audit and Supervisory Board Members without delay: matters required by laws, matters that may have a significant impact on the Company, matters decided at important meetings, the status of the Whistleblowing System and internal auditing system, etc.

b. Directors and employees will promptly report the status of the performance of their duties when requested by an Audit and Supervisory Board Member.

9) System for Directors and employees of subsidiaries, or those who have received reports from either of the foregoing, to report to Audit and Supervisory Board Members of the Company

a. Directors and employees of subsidiaries will promptly report matters related to the performance of their duties when requested by an Audit and Supervisory Board Member of the Company.

b. Directors and employees of subsidiaries will report matters that may have a significant impact on the Company or the Company's subsidiaries such as violations of laws and regulations, etc., without delay upon discovery of such matters.

c. When making decisions regarding employee evaluations and disciplinary action involving a whistleblower, the whistleblowing must not be taken into account, and the whistleblower may request an Audit and Supervisory Board Member to investigate into the reasons behind their employee evaluation, reassignment and disciplinary action.

10) Matters related to the policy for expenses and liabilities that arise as a result of Audit and Supervisory Board Members performing their duties

The Company will promptly process expenses arising from regular auditing practices when Audit and Supervisory Board Members submit requests for payment of such expenses. Other than usual audit expenses, if emergency audit expenses or expenses to hire professionals for new investigations arise, Audit and Supervisory Board Members must notify the relevant Officer in advance.

11) Other systems to ensure that audits by Audit and Supervisory Board Members are performed effectively

a. Audit and Supervisory Board Members will periodically exchange opinions with the Representative Director. Furthermore, they will hold interviews with Directors and employees in key positions as necessary.

b. Audit and Supervisory Board Members will exchange opinions with independent auditor as necessary.

c. Audit and Supervisory Board Members can independently seek the advice of attorneys, certified public accountants, and other professionals as necessary.

d. Audit and Supervisory Board Members will periodically exchange opinions and work on improving cooperation with the Internal Audit Office.

12) System to ensure the reliability of financial reporting

The Company sets out the basic policy relating to the establishment of the internal control system, establishes the internal controls relating to financial reporting and puts these policy and controls into operation.

13) Basic policy and status of implementation of efforts toward exclusion of anti-social forces

a. The Company has established the basic policy that it will have no association whatsoever with anti-social forces and absolutely rejects any improper solicitation. The Company clearly has stated this policy in writing and disseminates throughout the Company. If a business partner is deemed to be an individual, company or group with ties to anti-social forces, all business with that business partner will be terminated.

b. The Company assigns the responsibilities concerning exclusion of anti-social forces to the Risk Compliance Group, which centrally manages and collects, etc. pertinent information. While building systems that prevent incidents involving loss by anti-social forces, the Company conducts education and training to ensure Officers and employees comply with the basic policy.

c. If improper solicitation is received from anti-social forces, the Company shall work with external specialist bodies such as the police and attorneys in order to build a structure of cooperation for times of such event.

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

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

1) Performance of duties of the Board of Directors

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

2) Implementation of an internal audit

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

3) Performance of duties of Audit and Supervisory Board Members

In addition to holding 14 meetings of the Audit and Supervisory Board, Audit and Supervisory Board Members worked to improve and enhance the audit functions by carrying out audits in accordance with the audit schedule set forth at a meeting of the Audit and Supervisory Board, attending meetings of the Board of Directors, and regularly holding meetings with the Representative Director. Also, through audits in collaboration with the independent auditor and Internal Audit Office, and by verifying the status of internal audits, Audit and Supervisory Board Members monitor the Company's internal control system as a whole and provide advice regarding more efficient operations.

Consolidated Financial Statements

3. Consolidated Statement of Changes in Shareholders' Equity

(from July 1, 2019 to June 30, 2020)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	40,110	40,089	(29,097)	(0)	51,102
Changes of items during the period					
Issuance of new shares	1,330	1,330			2,661
Loss attributable to owners of parent			(22,772)		(22,772)
Purchase of shares of consolidated subsidiaries		(23)			(23)
Net changes of items other than shareholders' equity					
Total changes of items during the period	1,330	1,306	(22,772)	–	(20,135)
Balance at the end of current period	41,440	41,396	(51,870)	(0)	30,966

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income		
Balance at the beginning of current period	–	(165)	(165)	–	50,936
Changes of items during the period					
Issuance of new shares					2,661
Loss attributable to owners of parent					(22,772)
Purchase of shares of consolidated subsidiaries					(23)
Net changes of items other than shareholders' equity	3,995	(10)	3,985	582	4,567
Total changes of items during the period	3,995	(10)	3,985	582	(15,567)
Balance at the end of current period	3,995	(175)	3,819	582	35,368

4. Notes to Consolidated Financial Statements

1. Notes on basis of preparation of consolidated financial statements

(1) Scope of consolidation

1) Number of consolidated subsidiaries: 4

Names of consolidated subsidiaries:
Mercari, Inc. (US)
Merpay, Inc.
Kashima Antlers F.C. Co., Ltd.
Origami Inc.

Kashima Antlers F.C. Co., Ltd. was included in the scope of consolidation, following the Company's acquisition of shares thereof.
Merpay Ltd. was excluded from the scope of consolidation, following the sale of all its shares held by the Company.
Souzoh, Inc. was excluded from the scope of consolidation, following the completion of its liquidation.
Origami Inc. was included in the scope of consolidation, following the acquisition of shares thereof by the Company's consolidated subsidiary, Merpay, Inc.
Michael Inc. was excluded from the scope of consolidation, following the sale of all its shares held by the Company.

2) Names of unconsolidated subsidiaries

Not applicable.

(2) Application of equity method

Not applicable.

(3) Fiscal year ends of consolidated subsidiaries

Because the fiscal year end of consolidated subsidiary Kashima Antlers F.C. Co., Ltd., is January 31, which is more than three months away from the consolidated fiscal year end, that company is consolidated based on the provisional settlement of accounts as of April 30.
Because the fiscal year end of consolidated subsidiary Origami Inc. is December 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 March 31.
When significant transactions occur at those subsidiaries between their fiscal year ends and the consolidated fiscal year end, the necessary adjustments are made in the consolidated financial statements.
The fiscal year ends of all consolidated subsidiaries other than the above coincide with the consolidated fiscal year end.

(4) Accounting policies

1) Valuation standards and methods for significant assets

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

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

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

a. Property, plant and equipment

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

b. Intangible assets

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

Trademark rights are amortized by the straight line method based on the effective period (20 years).

3) Standards for recognition of significant reserves

a. Allowance for doubtful accounts

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

b. Provision for bonuses

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

c. Provision for point certificates

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

d. Provision for share-based compensation

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

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

a. Standards for translation of foreign currency-denominated assets and liabilities into Japanese yen

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

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

b. Method and period for amortization of goodwill

Goodwill is amortized over a period not exceeding 20 years using the straight line method.

c. Accounting for consumption taxes

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

2. Additional information

Accounting estimates associated with the impact of COVID-19

In terms of the impact of COVID-19, it is currently difficult to accurately forecast the future spread of the disease, when the pandemic clears up and so forth. At this point in time, in our forecasts of future cash flows, the future business environment, etc., we deem that although there is a certain extent of impact from COVID-19, that impact is limited. Moreover, the Company deems that COVID-19 has not had any significant impact with regard to accounting estimates for impairment loss on non-current assets, recoverability of deferred tax assets, etc. However, the Company is aware of the possibility that future changes to the situation could have an impact on the consolidated financial statements for the next fiscal year and subsequent fiscal years.

3. Notes to Consolidated Balance Sheet

Accumulated depreciation of property, plant and equipment ¥2,040 million

4. Notes to Consolidated Statement of Income

In the current fiscal year, the Group recorded impairment loss on the following asset groups.

(1) Overview of asset groups for which impairment loss was recognized

Location	Application	Type
Minato-ku, Tokyo Osaka-shi, Osaka	Business assets	Facilities attached to buildings, Tools, furniture and fixtures, Software, and others
Shibuya-ku, Tokyo	–	Goodwill

(2) Details on the recognition of impairment loss

In the case of business assets, an impairment loss was recorded as the asset groups that incurred or are expected to incur consecutive operating losses were not expected to generate cash flows as originally projected based on an assessment of their future recoverability. In addition, when shares of Michael Inc. were acquired, goodwill was recorded on the assumption of excess earning power; however, an impairment loss has been recognized as it has now been deemed difficult to obtain the initially projected earnings.

(3) Amounts of impairment loss

Facilities attached to buildings	¥23 million
Tools, furniture and fixtures	¥30 million
Software	¥18 million
Goodwill	¥845 million
Others	¥4 million
Total	¥922 million

(4) Asset grouping method

The Group groups business assets on the basis of asset grouping of units under managerial accounting, which are the smallest units generating independent cash flows. Idle assets are grouped by individual asset. As a general rule, goodwill is grouped by using companies as the standard unit.

(5) Valuation methods of recoverable amount

The recoverable amounts of the aforementioned asset groups are primarily measured according to the value in use. However, as the value in use of major assets is negative based on future cash flow within the period of remaining economic life, the recoverable value is considered to be zero.

5. Notes to Consolidated Statement of Changes in Shareholders' Equity

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

Common stock	156,150,364 shares

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

Common stock	4,982,230 shares

6. Notes to financial instruments

(1) Status of financial instruments

1) Company policy for financial instruments

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

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

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

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

The Group holds only bonds with high credit ratings in securities according to the Fund Management Regulations 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.

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

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

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

3) Supplementary information on fair values of financial instruments

Fair values of financial instruments are based on the quoted price in active markets. If a quoted price is not available, they 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, 2020 are as follows.

(Millions of yen)

	Carrying amounts	Fair values	Differences
1) Cash and cash equivalents	135,747	135,747	–
2) Securities	5,260	5,260	–
3) Trade accounts receivable	1,119		
4) Other receivable	15,612		
Allowance for doubtful accounts (*1)	(1,404)		
	15,327	15,327	–
5) Deposits paid	9,718	9,718	–
6) Investment securities	5,628	5,628	–
Total assets	171,681	171,681	–
7) Cash due to users and other payables	16,206	16,206	–
8) Accrued expenses	861	861	–
9) Income taxes payable	1,427	1,427	–
10) Deposits received	83,954	83,954	–
11) Long-term borrowings (*2)	52,447	52,445	(2)
Total liabilities	154,896	154,894	(2)

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

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

Assets

1) Cash and cash equivalents, 2) Securities, 3) Trade accounts receivable, 4) Other receivable, and 5) Deposits paid

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

6) Investment securities

The fair values of investment securities are based on the prices of shares, etc. traded at the stock exchange.

Liabilities

7) Cash due to users and other payables, 8) Accrued expenses, 9) Income taxes payable, and 10) Deposits received

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

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

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

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

(Millions of yen)

	Carrying amounts
Investment securities	253
Lease deposits	2,128
Guarantee deposits	16,598

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

7. Notes to per share information

(1) Net assets per share	¥222.78
(2) Basic loss per share	¥(147.86)

8. Notes to significant subsequent events

Liquidation of receivables

At the meeting of the Board of Directors held on July 16, 2020, the Company resolved to liquidate advance payment receivables of a consolidated subsidiary.

(1) Purpose of liquidation

By liquidating the advance payment receivables of Merpay, Inc. ("Merpay"), a consolidated subsidiary of the Company, the Company aims to more efficiently utilize assets owned by Merpay and strengthen its financial base.

(2) Overview of liquidation

(i)	Counterparty	Financial institutions
(ii)	Maximum amount	¥50,000 million
(iii)	Interest rate	Variable interest rates
(iv)	Initial round date	August 13, 2020
(v)	Contract term	5 years
(vi)	Other important particulars	None

Sale of investment securities

The Company sold a portion of the investment securities on July 22, 2020. As a result, the Company will record a gain on sales of investment securities (extraordinary income) in the next fiscal year.

(1) Reason for sale of investment securities

To increase the efficiency of the Company's assets and improve the Company's financial standing.

(2) Date of sale

July 22, 2020

(3) Overview of sale

The investment securities to be sold:	Shares of one listed company held by the Company
Gain on sales of investment securities:	¥6,942 million

(4) Future outlook

The Company is to record the gain on sales of investment securities above as extraordinary income in the fiscal year ending June 30, 2021.

Non-consolidated Financial Statements

5. Non-consolidated Statement of Changes in Shareholders' Equity

(from July 1, 2019 to June 30, 2020)

(Millions of yen)

	Shareholders' equity					
	Capital stock	Capital surplus			Retained earnings	
		Legal capital reserve	Other capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward	Total retained earnings
Balance at the beginning of current period	40,110	40,089	0	40,089	(19,957)	(19,957)
Changes of items during the period						
Issuance of new shares	1,330	1,330		1,330		
Loss					(28,014)	(28,014)
Net changes of items other than shareholders' equity						
Total changes of items during the period	1,330	1,330	–	1,330	(28,014)	(28,014)
Balance at the end of current period	41,440	41,420	0	41,420	(47,971)	(47,971)

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at the beginning of current period	(0)	60,242	–	–	60,242
Changes of items during the period					
Issuance of new shares		2,661			2,661
Loss		(28,014)			(28,014)
Net changes of items other than shareholders' equity			3,995	3,995	3,995
Total changes of items during the period	–	(25,353)	3,995	3,995	(21,357)
Balance at the end of current period	(0)	34,889	3,995	3,995	38,884

6. Notes to Non-consolidated Financial Statements

1. Notes to significant accounting policies

(1) Valuation standards and methods for significant assets

1) Valuation standards and methods for securities

Shares of subsidiaries:

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

Available-for-sale securities:

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

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

2) Valuation standards and methods for inventory

Merchandise:

Stated at cost determined using the first in, first out method (the carrying amounts in the non-consolidated balance sheet are calculated using the method in which carrying amounts are written down due to a decline in profitability).

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

1) Property, plant and equipment

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

2) Intangible assets

Software for internal use

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

(3) Standards for recognition of reserves

1) Allowance for doubtful accounts

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

2) Provision for bonuses

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

3) Provision for point certificates

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

4) Provision for share-based compensation

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

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

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

(5) Method and period for amortization of goodwill

Goodwill is amortized over a period not exceeding 20 years using the straight line method.

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

Accounting for consumption taxes

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

2. Notes to changes in presentation

Non-consolidated Statement of Income

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

Interest income was ¥5 million in the previous fiscal year.

3. Additional information

Accounting estimates associated with the impact of COVID-19

In terms of the impact of COVID-19, it is currently difficult to accurately forecast the future spread of the disease, when the pandemic clears up and so forth. At this point in time, in our forecasts of future cash flows, the future business environment, etc., we deem that although there is a certain extent of impact from COVID-19, that impact is limited. Moreover, the Company deems that COVID-19 has not had any significant impact with regard to accounting estimates for impairment loss on non-current assets, recoverability of deferred tax assets, etc. However, the Company is aware of the possibility that future changes to the situation could have an impact on the financial statements for the next fiscal year and subsequent fiscal years.

4. Notes to Non-consolidated Balance Sheet

(1) Accumulated depreciation of property, plant and equipment ¥1,404 million

(2) Contingent liabilities

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

Merpay, Inc.	¥38,000 million

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

Short-term monetary receivables	¥16,021 million
Short-term monetary payables	¥2,538 million

(4) Contingent liabilities

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

5. Notes to Non-consolidated Statement of Income

Transactions with subsidiaries and associates

Net sales	¥233 million
Operating expenses	¥7,655 million
Transactions from non-operating transactions	¥68 million

6. Notes to Non-consolidated Statement of Changes in Shareholders' Equity

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

Common stock	2 shares

7. Notes to tax effect accounting

Components of deferred tax assets and deferred tax liabilities

	(Millions of yen)
Deferred tax assets	
Accrued enterprise tax	77
Accrued expenses	141
Depreciation and amortization	311
Loss on valuation of shares of subsidiaries and associates	20,462
Loss on devaluation of investment securities	221
Provision for bonuses	253
Provision for point certificates	41
Other	223
Subtotal deferred tax assets	21,733
Valuation allowance	(19,994)
Total deferred tax assets	1,739
Deferred tax liabilities	
Valuation difference on available-for-sale securities	1,631
Total deferred tax liabilities	1,631
Net deferred tax assets	107

8. Notes to related party transactions

(1) Subsidiaries and associates, etc.

Category	Name	Percentage of voting rights owning or owned	Relationship	Details of transaction	Transaction amount (Millions of yen)	Account title	Ending balance (Millions of yen)
Subsidiary	Mercari, Inc. (US)	Directly owning 100.0%	Interlocking of officers	Investment (Note 4)	15,446	–	–
Subsidiary	Merpay, Inc.	Directly owning 100.0%	Contracting of operations, interlocking of officers	Contracting of operations (Note 2)	6,885	Cash due to users and other payables	1,604
				Lending of funds	9,200	–	–
				Collection of funds	13,400	–	–
				Receipt of interest (Note 3)	32	–	–
				Investment (Note 4)	18,721	–	–
				Guarantee of obligation (Note 5)	38,000	–	–

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

(2) Officers and individual shareholders, etc.

Category	Name	Percentage of voting rights owning or owned	Relationship	Details of transaction	Transaction amount (Millions of yen)	Account title	Ending balance (Millions of yen)
Officer	Shintaro Yamada	Directly (owned) 24.10%	Representative Director of the Company	Exercise of the stock acquisition rights (Note 1)	11	–	–
Officer	Fumiaki Koizumi	Directly (owned) 0.97%	Director of the Company	Exercise of the stock acquisition rights (Note 2)	11	–	–
Officer	Yuki Hamada	Directly (owned) 0.65%	Director of the Company	Exercise of the stock acquisition rights (Note 3)	11	–	–
Officer	John Lagerling	Directly (owned) 0.16%	Director of the Company	Exercise of the stock acquisition rights (Note 4)	378	–	–

(Notes) 1. Exercise of stock acquisition rights in the current fiscal year concerning those granted pursuant to the resolution at the Board of Directors meeting held on December 12, 2014. Transaction amount listed above are amounts paid upon exercise of stock options in the current fiscal year.

2. Exercise of stock acquisition rights in the current fiscal year concerning those granted pursuant to the resolutions at the Board of Directors meetings held on August 19, 2014, December 12, 2014, and June 24, 2016. Transaction amount listed above are amounts paid upon exercise of stock options in the current fiscal year.

3. Exercise of stock acquisition rights in the current fiscal year concerning those granted pursuant to the resolutions at the Board of Directors meetings held on August 21, 2015, June 24, 2016, and June 22, 2017. Transaction amount listed above are amounts paid upon exercise of stock options in the current fiscal year.

4. Exercise of stock acquisition rights in the current fiscal year concerning those granted pursuant to the resolution at the Board of Directors meeting held on June 22, 2017. Transaction amount listed above are amounts paid upon exercise of stock options in the current fiscal year.

9. Notes to per share information

Net assets per share	¥249.02
Basic loss per share	¥(181.89)

10. Notes to significant subsequent events

Sale of investment securities

The Company sold a portion of the investment securities on July 22, 2020. As a result, the Company will record a gain on sales of investment securities (extraordinary income) in the next fiscal year.

(1) Reason for sale of investment securities

To increase the efficiency of the Company’s assets and improve the Company’s financial standing.

(2) Date of sale

July 22, 2020

(3) Overview of sale

The investment securities to be sold: Shares of one listed company held by the Company

Gain on sales of investment securities: ¥6,942 million

(4) Future outlook

The Company is to record the gain on sales of investment securities above as extraordinary income in the fiscal year ending June 30, 2021.

Capital increase of and lending funds to subsidiary

Pursuant to the resolution of the Board of Directors on June 18, 2020, the Company carried out the capital increase of and made a loan to a subsidiary as follows.

(1) Objective of capital increase and loan

Increase working capital

(2) Details of capital increase and loan

Capital increase

Capital increase amount	¥3,200 million
Execution date	July 1, 2020

Loan

Loan amount	¥5,000 million
Execution date	July 1, 2020
Interest rate	0.32636%
Repayment due date	January 8, 2021

(3) Overview of subsidiary

Name	Merpay, Inc.
Business	Payment services business
Amount of capital stock	Capital stock after capital increase: ¥1,700 million