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Items Disclosed Online in Relation to the Notice of the 6th Annual General Meeting of Shareholders

Reference Documents for the General Meeting of Shareholders

- Proposal No. 1: Approval of Absorption-Type Company Split Agreement
Details of Financial statements, Etc. for the Final Fiscal Year of the
Succeeding Company

Business Report

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

Consolidated Financial Statements

- Consolidated Statement of Changes in Shareholders' Equity
- Notes to Consolidated Financial Statements

Non-consolidated Financial Statements

- Non-consolidated Statement of Changes in Shareholders' Equity
- Notes to Non-consolidated Financial Statements

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/>).

Reference Documents for the General Meeting of Shareholders

Proposal No. 1: Approval of Absorption-Type Company Split Agreement

Details of Financial statements, Etc. for the Final Fiscal Year of the Succeeding Company

Business Report (from November 20, 2017 to June 30, 2018)

1. Current Condition of the Company

(1) Business progress and results

Merpay, Inc. (“Merpay”) was established as a wholly owned subsidiary of Mercari, Inc. on November 20, 2017.

With the mission of “Building trust for a seamless society,” Merpay aims to use technology and the vast amount of information gained through Mercari’s C2C marketplace to create new trust in a world where Merpay connects all kinds of financial services.

For the current fiscal year, Merpay recognized an operating loss of ¥889 million, an ordinary loss of ¥889 million, and a loss of ¥890 million.

(2) Capital investments

The total amount of capital investments made in the current fiscal year was ¥42 million, mainly consisting of acquisition expenses for interior construction for an office opened in Fukuoka-shi.

(3) Financing

Following its establishment, in March 2018, Merpay received ¥1,000 million from Mercari, Inc. by issuing new shares.

(4) Business transfer, absorption-type company split, or incorporation-type company split

Not applicable.

(5) Acquisitions of other companies’ businesses

Not applicable.

(6) Successions of rights or obligations related to the businesses of other legal entities, etc. due to absorption-type merger or absorption-type company split

Not applicable.

(7) Acquisitions or disposals of shares, other equities, and stock acquisition rights in other companies

Not applicable.

(8) Assets and profit (loss)

Category	1st fiscal year (Fiscal year ended June 2018)
Ordinary loss (Thousands of yen)	(889,199)
Loss (Thousands of yen)	(890,712)
Basic loss per share (Yen)	(1,443,523.19)
Total assets (Thousands of yen)	693,876
Net assets (Thousands of yen)	309,287
Net assets per share (Yen)	257,739.94

- (Notes)
1. Basic loss per share is calculated based on the average number of issued shares during the fiscal year.
 2. Net assets per share is calculated based on the number of issued shares as of the end of the fiscal year.
 3. The 1st fiscal year is from November 20, 2017 to June 30, 2018.

(9) Parent company and subsidiaries

1) Parent company

The parent company of Merpay is Mercari, Inc., which holds 1,200 shares of Merpay's stock (100% of voting rights).

2) Subsidiaries

Not applicable.

(10) Issues to be addressed

Merpay will focus on obtaining new affiliated merchants to adopt Merpay's services, and building trust and security both inside and outside Merpay in preparation for launching new services.

In order to achieve the above, Merpay will also take steps to secure human resources and provide internal training, etc., as we work to expand our services.

(11) Major business (as of June 30, 2018)

Financial-related businesses

(12) Major offices (as of June 30, 2018)

Head Office: 6-10-1 Roppongi, Minato-ku, Tokyo

(13) Employees (as of June 30, 2018)

Employees of Merpay

Number of employees	Increase (decrease) from previous fiscal year-end
175	—

- (Note) The number of employees shown above does not include officers, part-time employees, temporary employees, and contracted operations.

(14) Major lenders (as of June 30, 2018)

Not applicable.

Non-consolidated Balance Sheet (as of June 30, 2018)

(Thousands of yen)

Item	Amount	Item	Amount
ASSETS		LIABILITIES	
Current assets	633,815	Current liabilities	384,588
Cash and cash equivalents	610,918	Accounts payable	234,051
Prepaid expenses	2,222	Accrued expenses	3,631
Other current assets	20,674	Deposits received	1,377
Non-current assets	60,060	Income taxes payable	4,437
Property, plant and equipment	40,654	Provision for bonuses	141,090
Buildings	14,103	Total liabilities	384,588
Tools, furniture and fixtures	26,550	NET ASSETS	
Investments and other assets	19,405	Shareholders' equity	309,287
Lease deposits	19,405	Capital stock	600,000
		Capital surplus	600,000
		Legal capital reserve	600,000
		Retained earnings (Accumulated deficit)	(890,712)
		Other retained earnings (Accumulated deficit)	(890,712)
		Retained earnings brought forward (Accumulated deficit)	(890,712)
		Total net assets	309,287
Total assets	693,876	Total liabilities and net assets	693,876

(Note) Amounts of less than one thousand yen are rounded down to the nearest thousand yen.

Non-consolidated Statement of Income (from November 20, 2017 to June 30, 2018)

(Thousands of yen)

Item	Amount	
Net sales		—
Cost of sales		—
Gross profit		—
Selling, general and administrative expenses		889,200
Operating loss		889,200
Non-operating income		
Interest income	0	0
Ordinary loss		889,199
Loss before income taxes		889,199
Income taxes - current	1,512	1,512
Loss		890,712

(Note) Amounts of less than one thousand yen are rounded down to the nearest thousand yen.

Non-consolidated Statement of Changes in Shareholders' Equity

(from November 20, 2017 to June 30, 2018)

(Thousands of yen)

	Shareholders' equity					
	Capital stock	Capital surplus		Retained earnings		Total shareholders' equity
		Legal capital reserve	Total capital surplus	Other retained earnings	Total retained earnings	
				Retained earnings brought forward		
Changes of items during the period						
Issuance of new shares	600,000	600,000	600,000	—	—	1,200,000
Loss				(890,712)	(890,712)	(890,712)
Total changes of items during the period	600,000	600,000	600,000	(890,712)	(890,712)	309,287
Balance as of June 30, 2018	600,000	600,000	600,000	(890,712)	(890,712)	309,287

(Note) Amounts of less than one thousand yen are rounded down to the nearest thousand yen.

1. Notes to significant accounting policies

(1) Depreciation method of significant depreciable assets

Property, plant and equipment: Mainly depreciated by the straight line method.

Useful lives are as follows:

Buildings: 8 to 15 years

Tools, furniture and fixtures: 5 to 10 years

(2) Standards for recognition of reserves

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

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

Accounting for consumption taxes: The tax exclusion method is applied for consumption taxes.

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

(1) Class and total number of issued shares

Class of shares	Beginning of current period	Increase	Decrease	End of current period
Common stock	– shares	1,200 shares	– shares	1,200 shares

(2) Dividends of surplus

1) Dividends paid

Not applicable.

2) Dividend payments for which the record date falls in the current fiscal year and the effective date falls in the following fiscal year

Not applicable.

Audit Report

I have audited the performance of duties by the Directors during the 1st fiscal year, from November 20, 2017 to June 30, 2018. The Audit and Supervisory Board's audit methods and results are as follows.

1. Auditing methods and content thereof

I have taken steps to communicate with the Directors, the Internal Audit Department and other employees, Audit and Supervisory Board Members of the parent company and other persons, and have endeavored to collect information and create an environment appropriate for audits. I have also attended meetings of the Board of Directors and other important meetings, received reports on the status of the performance of duties from the Directors, employees, and others, requested explanations as necessary, viewed important approval documents and other documents, and investigated the status of operations and assets at the head office. Based on these methods, I have examined the business report and its supplementary schedules for the current fiscal year.

Furthermore, I have investigated the accounting books and related documents, and have examined the non-consolidated financial statements for the current fiscal year (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in shareholders' equity, and notes to non-consolidated financial statements) and the supplementary schedules thereof.

2. Results of audit

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

- 1) I certify that the business report and its supplementary schedules fairly present the situation of Merpay in accordance with laws and regulations as well as the Articles of Incorporation.
- 2) I found no wrongful act or material fact in violation of laws, regulations, or the Articles of Incorporation with respect to the performance of duties by the Directors.

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

The non-consolidated financial statements and their supplementary schedules are found to be proper with respect to all the significant aspects, including Merpay's financial position and the results of operation.

August 9, 2018

Merpay, Inc.
Fumiyuki Fukushima [Seal]
Audit and Supervisory Board Member

Business Report

Status of stock acquisition rights

(1) Status of stock acquisition rights (as of June 30, 2018)

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
1st series stock acquisition rights (May 7, 2013)	1,385	Common stock 1,385,000	Without contribution	1	From May 8, 2015 to May 7, 2023
3rd series stock acquisition rights (December 27, 2013)	2,495	Common stock 2,495,000	Without contribution	20	From December 28, 2015 to December 27, 2023
4th series stock acquisition rights (January 31, 2014)	100	Common stock 100,000	Without contribution	20	From February 1, 2016 to January 31, 2024
5th series stock acquisition rights (August 20, 2014)	169,500	Common stock 1,695,000	Without contribution	20	From August 21, 2016 to August 19, 2024
8th series stock acquisition rights (December 22, 2014)	196,000	Common stock 1,960,000	Without contribution	20	From December 23, 2016 to August 19, 2024
9th series stock acquisition rights (December 22, 2014)	75,200	Common stock 752,000	Without contribution	20	From December 22, 2014 to December 22, 2024
10th series stock acquisition rights (February 14, 2015)	94,400	Common stock 944,000	Without contribution	20	From February 15, 2017 to August 19, 2024
11th series stock acquisition rights (February 14, 2015)	5,000	Common stock 50,000	Without contribution	20	From February 15, 2017 to August 19, 2024
12th series stock acquisition rights (June 27, 2015)	154,000	Common stock 1,540,000	Without contribution	20	From June 28, 2017 to June 26, 2025
13th series stock acquisition rights (June 27, 2015)	67,500	Common stock 675,000	Without contribution	20	From June 27, 2015 to June 27, 2025
14th series stock acquisition rights (August 22, 2015)	98,100	Common stock 981,000	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
16th series stock acquisition rights (November 28, 2015)	21,000	Common stock 210,000	Without contribution	24	From November 29, 2017 to November 27, 2025
18th series stock acquisition rights (February 13, 2016)	50,150	Common stock 501,500	Without contribution	102	From February 14, 2018 to February 12, 2026
19th series stock acquisition rights (February 13, 2016)	300	Common stock 3,000	Without contribution	102	From February 14, 2018 to February 12, 2026
20th series stock acquisition rights (February 13, 2016)	1,000	Common stock 10,000	Without contribution	102	From February 13, 2016 to February 13, 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
21st series stock acquisition rights (June 25, 2016)	80,000	Common stock 800,000	Without contribution	102	From June 26, 2018 to February 12, 2026
22nd series stock acquisition rights (June 25, 2016)	52,581	Common stock 525,810	Without contribution	102	From June 26, 2018 to February 12, 2026
23rd series stock acquisition rights (June 25, 2016)	10,000	Common stock 100,000	Without contribution	102	From June 25, 2016 to June 25, 2026
24th series stock acquisition rights (June 25, 2016)	4,000	Common stock 40,000	Without contribution	102	From June 26, 2018 to February 12, 2026
25th series stock acquisition rights (August 31, 2016)	35,600	Common stock 356,000	Without contribution	332	From September 1, 2018 to August 30, 2026
26th series stock acquisition rights (August 31, 2016)	24,000	Common stock 240,000	Without contribution	332	From September 1, 2018 to August 30, 2026
27th series stock acquisition rights (August 31, 2016)	7,000	Common stock 70,000	Without contribution	332	From August 31, 2016 to August 31, 2026
28th series stock acquisition rights (December 14, 2016)	1,500	Common stock 15,000	Without contribution	332	From December 15, 2018 to August 30, 2026
29th series stock acquisition rights (December 14, 2016)	9,900	Common stock 99,000	Without contribution	332	From December 15, 2018 to August 30, 2026
30th series stock acquisition rights (February 24, 2017)	30,756	Common stock 307,560	Without contribution	353	From February 25, 2019 to February 23, 2027
31st series stock acquisition rights (February 24, 2017)	7,925	Common stock 79,250	Without contribution	353	From February 25, 2019 to February 23, 2027
32nd series stock acquisition rights (February 24, 2017)	11,700	Common stock 117,000	Without contribution	353	From February 24, 2017 to February 24, 2027
33rd series stock acquisition rights (March 11, 2017)	8,000	Common stock 80,000	Without contribution	353	From March 12, 2019 to February 23, 2027
34th series stock acquisition rights (June 23, 2017)	300,570	Common stock 3,005,700	Without contribution	353	From June 24, 2019 to February 23, 2027
35th series stock acquisition rights (June 23, 2017)	177,900	Common stock 1,779,000	Without contribution	353	From June 24, 2019 to February 23, 2027
36th series stock acquisition rights (June 23, 2017)	212,348	Common stock 2,123,480	Without contribution	353	From June 23, 2017 to June 23, 2027
37th series stock acquisition rights (June 23, 2017)	3,700	Common stock 37,000	Without contribution	353	From June 24, 2019 to February 23, 2027
38th series stock acquisition rights (November 29, 2017)	1,326,600	Common stock 1,326,600	Without contribution	3,000	From November 30, 2019 to November 28, 2027

Name (Issue date)	Number of stock acquisition rights (Units)	Class and number of shares to be issued upon exercise of stock acquisition rights (Shares)	Amount paid per unit	Exercise price per share (Yen)	Exercise period of stock acquisition rights
39th series stock acquisition rights (March 13, 2018)	42,500	Common stock 42,500	Without contribution	3,000	From March 14, 2020 to March 12, 2028
Total	3,285,210	Common stock 24,470,400	—	—	—

(2) Stock acquisition rights held by Directors and Audit and Supervisory Board Members of Mercari, Inc.
(the “Company”) (as of June 30, 2018)

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)
3rd series stock acquisition rights (December 27, 2013)	1	900	Common stock 900,000
5th series stock acquisition rights (August 20, 2014)	1	50,000	Common stock 500,000
8th series stock acquisition rights (December 22, 2014)	3	166,000	Common stock 1,660,000
14th series stock acquisition rights (August 22, 2015)	1	40,000	Common stock 400,000
21st series stock acquisition rights (June 25, 2016)	2	80,000	Common stock 800,000
22nd series stock acquisition rights (June 25, 2016)	1	20,000	Common stock 200,000
34th series stock acquisition rights (June 23, 2017)	2	180,000	Common stock 1,800,000
35th series stock acquisition rights (June 23, 2017)	1	70,000	Common stock 700,000
36th series stock acquisition rights (June 23, 2017)	1	160,000	Common stock 1,600,000

- (Notes)
- On April 30, 2014, the Company conducted a 100:1 stock split of its common stock, pursuant to the resolution of the Board of Directors on April 15, 2014. 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.
 - 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.
 - The conditions for exercising the 3rd series stock acquisition rights are as follows:
 - 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.
 - The stock acquisition rights are to be exercised in units of one stock acquisition right, and partial exercise of any stock acquisition right will not be permitted.
 - 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.

4. The conditions for exercising the 5th series, 8th series, 14th series, 21st series, 22nd series, 34th series, 35th series, and 36th 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 stock acquisition rights are to be exercised in units of one stock acquisition right, and partial exercise of any stock acquisition right will not be permitted.
 - 3) 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.

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	5,000	Common stock 50,000
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 April 30, 2014, the Company conducted a 100:1 stock split of its common stock, pursuant to the resolution of the Board of Directors on April 15, 2014. 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. 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.
 3. 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 stock acquisition rights are to be exercised in units of one stock acquisition right, and partial exercise of any stock acquisition right will not be permitted.
 - 3) 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) Stock acquisition rights delivered to employees, etc. (excluding Officers) of the Company during the current fiscal year

Name (Issue date)	Number of recipients	Number of stock acquisition rights delivered (Units)	Class and number of shares to be issued upon exercise of stock acquisition rights (Shares)
38th series stock acquisition rights (November 29, 2017)	570	1,330,800	Common stock 1,330,800
39th series stock acquisition rights (March 13, 2018)	14	42,500	Common stock 42,500

(Note) The conditions for exercising the 38th series and 39th 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 stock acquisition rights are to be exercised in units of one stock acquisition right, and partial exercise of any stock acquisition right will not be permitted.
- 3) 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.

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.
- 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 Group 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.
 - 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 Director 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 Group.

(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. Eighteen 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 Group 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, a subsidiary in Japan, a subsidiary in the U.S. and subsidiaries in the U.K. The results were reported to the Representative Director.

3) Performance of duties of Audit and Supervisory Board Members

In addition to holding 12 meetings of the Audit and Supervisory Board, Audit and Supervisory Board Members worked to improve and enhance the audit functions by carrying out audits in accordance with the audit schedule set forth at a meeting of the Audit and Supervisory Board, attending meetings of the Board of Directors, and regularly holding meetings with the Representative Director. Also, through audits in collaboration with the independent auditor and Internal Audit Group, and by verifying the status of internal audits covering all of the Group’s departments and divisions, 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

Consolidated Statement of Changes in Shareholders' Equity

(from July 1, 2017 to June 30, 2018)

(Millions of yen)

	Shareholders' equity				Accumulated other comprehensive income		Total net assets
	Capital stock	Capital surplus	Retained earnings	Total shareholders' equity	Foreign currency translation adjustments	Total accumulated other comprehensive income	
Balance at the beginning of current period	6,286	6,266	(8,246)	4,306	110	110	4,416
Changes of items during the period							
Issuance of new shares	28,516	28,516		57,033			57,033
Loss attributable to owners of parent			(7,041)	(7,041)			(7,041)
Net changes of items other than shareholders' equity					13	13	13
Total changes of items during the period	28,516	28,516	(7,041)	49,992	13	13	50,005
Balance at the end of current period	34,803	34,783	(15,288)	54,298	123	123	54,422

Notes to Consolidated Financial Statements

1. Notes on basis of preparation of consolidated financial statements

(1) Scope of consolidation

- 1) Number of consolidated subsidiaries: 5

Names of consolidated subsidiaries:

Mercari, Inc. (US)

Souzoh, Inc.

Mercari Europe Ltd.

Merpay Ltd.

Merpay, Inc.

Merpay, Inc. was newly established on November 20, 2017, and thus became a consolidated subsidiary in the current fiscal year.

- 2) Names of unconsolidated subsidiaries

Not applicable.

(2) Application of equity method

Not applicable.

(3) Fiscal year ends of consolidated subsidiaries

The fiscal year ends of all consolidated subsidiaries are the same as 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 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

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

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.

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 treatment of deferred assets

Share issuance cost

The whole amount is recognized as an expense when it is incurred.

d. Accounting for consumption taxes

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

2. Notes to Consolidated Balance Sheet

Accumulated depreciation of property, plant and equipment ¥317 million

3. 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 135,339,722 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 13,197,201 shares

4. Notes to financial instruments

(1) Status of financial instruments

1) Company policy for financial instruments

The Group restricts fund management to short-term deposits and the like, 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 customer credit risk. The Group mitigates such risks by monitoring and managing the payment terms and outstanding balances.

Payment terms of cash due to users and other payables, which constitute trade payables, are within one year.

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.

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

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, 2018 are as follows.

	(Millions of yen)		
	Carrying amounts	Fair values	Differences
1) Cash and cash equivalents	109,157	109,157	—
2) Trade accounts receivable	359	359	—
3) Other receivable	2,774	2,774	—
Total assets	112,291	112,291	—
4) Short-term borrowings	1,000	1,000	—
5) Cash due to users and other payables	26,677	26,677	—
6) Accrued expenses	1,422	1,422	—
7) Income taxes payable	2,260	2,260	—
8) Deposits received	2,223	2,223	—
9) Long-term borrowings (*1)	28,018	28,018	(0)
Total liabilities	61,602	61,602	(0)

(*1) 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) Trade accounts receivable, and 3) Other receivable

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

Liabilities

4) Short-term borrowings, 5) Cash due to users and other payables, 6) Accrued expenses, 7) Income taxes payable, and 8) 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.

9) 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	416
Lease deposits	1,223

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.

5. Notes to per share information

- (1) Net assets per share ¥402.12
- (2) Basic loss per share ¥(60.61)

(Note) On October 20, 2017, the Company conducted a 10:1 stock split of its common stock. Basic loss per share is calculated based on the assumption that the stock split was implemented at the beginning of the current fiscal year.

6. Notes to significant subsequent events

Issuance of new shares through third-party allotment

In connection with the Japanese offering accompanying the listing of the Company's common stock on the Mothers Section of the Tokyo Stock Exchange and the Japanese second offering by the underwriters, the Company conducted the Japanese second offering of 2,840,500 shares of common stock by way of over-allotment, with Daiwa Securities Co. Ltd. as the seller, having borrowed its common stock from shareholders. Capital increase through a third-party allotment related to this Japanese second offering was conducted with Daiwa Securities Co. Ltd. as the allottee.

1) Class and number of shares to be issued	Common stock of the Company: 2,840,500 shares	
2) Allotment price	¥2,865 per share	
3) Total allotment price	¥8,138 million	
4) Amount of increase in capital stock and legal capital reserve	Increase in capital stock	¥4,069 million
	Increase in legal capital reserve	¥4,069 million
5) Allottee and the number of shares allotted	Daiwa Securities Co. Ltd.	2,840,500 shares
6) Payment date	July 19, 2018	
7) Use of funds	The funds will be used for the working capital of the Group, including investments and loans to consolidated subsidiaries and for the repayment of borrowings.	

Non-consolidated Financial Statements

Non-consolidated Statement of Changes in Shareholders' Equity

(from July 1, 2017 to June 30, 2018)

(Millions of yen)

	Shareholders' equity						Total net assets
	Capital stock	Capital surplus		Retained earnings		Total shareholders' equity	
		Legal capital reserve	Total capital surplus	Other retained earnings	Total retained earnings		
				Retained earnings brought forward			
Balance at the beginning of current period	6,286	6,266	6,266	(6,481)	(6,481)	6,071	6,071
Changes of items during the period							
Issuance of new shares	28,516	28,516	28,516			57,033	57,033
Loss				(8,428)	(8,428)	(8,428)	(8,428)
Total changes of items during the period	28,516	28,516	28,516	(8,428)	(8,428)	48,605	48,605
Balance at the end of current period	34,803	34,783	34,783	(14,910)	(14,910)	54,676	54,676

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 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.

(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

1) Accounting treatment of deferred assets

Share issuance cost

The whole amount is recognized as an expense when it is incurred.

2) 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 Balance Sheet

“Advances received” was included in “other current liabilities” under current liabilities in the previous fiscal year, but as its materiality has increased, it is presented separately from the current fiscal year.

“Advances received” was ¥47 million in the previous fiscal year.

3. Notes to Non-consolidated Balance Sheet

(1) Accumulated depreciation of property, plant and equipment ¥253 million

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

Short-term monetary receivables ¥2,419 million

Short-term monetary payables ¥46 million

(3) Contingent liabilities

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

4. Notes to Non-consolidated Statement of Income

Transactions with subsidiaries and associates

Net sales ¥111 million

Operating expenses ¥223 million

Transactions from non-operating transactions ¥18 million

5. 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

Not applicable.

6. Notes to tax effect accounting

Components of deferred tax assets and deferred tax liabilities

(Millions of yen)

Deferred tax assets	
Accrued enterprise tax	196
Accrued expenses	98
Cash due to users and other payables	33
Depreciation and amortization	99
Loss on valuation of shares of subsidiaries and associates	6,979
Loss on devaluation of investment securities	135
Provision for bonuses	173
Allowance for doubtful accounts	176
Other	5
Subtotal deferred tax assets	7,898
Valuation allowance	(7,270)
Total deferred tax assets	627
Net deferred tax assets	627

7. Notes to related party transactions

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 2)	14,406	—	—
Subsidiary	Mercari Europe Ltd.	Directly owning 100.0%	Interlocking of officers	Investment (Note 2)	1,366	—	—
Subsidiary	Souzoh, Inc.	Directly owning 100.0%	Contracting of operations, interlocking of officers	Contracting of operations (Note 3)	223	Other receivable (Note 4)	1,685
Subsidiary	Merpay, Inc.	Directly owning 100.0%	Interlocking of officers	Investment (Note 2)	1,200	—	—

- (Notes)
1. The transaction amounts shown above do not include consumption taxes, whereas the ending balance includes consumption taxes.
 2. In regard to investments, the Company subscribed for all shares issued.
 3. Decisions regarding contracting of operations are made rationally, taking into consideration information such as the status of subsidiaries' business and actual market prices.
 4. In regard to other receivable from Souzoh, Inc., the Company recorded a provision of allowance for doubtful accounts and allowance for doubtful accounts of ¥432 million in the current fiscal year.
 5. In relation to the subsidiary Mercari, Inc. (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.

8. Notes to per share information

Net assets per share	¥403.99
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Basic loss per share	¥(72.55)
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(Note) On October 20, 2017, the Company conducted a 10:1 stock split of its common stock. Basic loss per share is calculated based on the assumption that the stock split was implemented at the beginning of the current fiscal year.

9. Notes to significant subsequent events

Issuance of new shares through third-party allotment

In connection with the Japanese offering accompanying the listing of the Company's common stock on the Mothers Section of the Tokyo Stock Exchange and the Japanese second offering by the underwriters, the Company conducted the Japanese second offering of 2,840,500 shares of common stock by way of over-allotment, with Daiwa Securities Co. Ltd. as the seller, having borrowed its common stock from shareholders. Capital increase through a third-party allotment related to this Japanese second offering was conducted with Daiwa Securities Co. Ltd. as the allottee. An overview of this event is as described in "Note to significant subsequent events" in the notes to the consolidated financial statements.

Capital increase of subsidiary

Pursuant to the resolution of the Board of Directors on July 19, 2018, the Company subscribed to the capital increase of a subsidiary as follows:

(1) Objective of capital increase

Increase working capital

(2) Details of capital increase

Capital increase amount	¥3,000 million
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Payment date	July 31, 2018
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(3) Overview of subsidiary subject to capital increase

Name	Merpay, Inc.
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Business	Payment services business
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Amount of capital stock	Capital stock after capital increase: ¥2,100 million
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Shareholding ratio	The Company, 100%
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Significant company split

At a meeting of the Board of Directors held on August 9, 2018, the Company resolved that part of the rights and obligations, etc. held by the Company with respect to the payment services business would be succeeded by Merpay, Inc. (“Merpay”), the Company’s wholly owned subsidiary, through an absorption-type company split (the “Company Split”) effective December 1, 2018 (planned), and executed an agreement on the same day.

(1) Objective of absorption-type company split

On November 20, 2017, the Company established Merpay as a wholly owned subsidiary of the Company to operate new finance-related businesses. In addition to providing new payment methods, Merpay aims to provide a variety of financial services based on the Company’s strong technical expertise and significant base of customers and information developed through the *Mercari* C2C marketplace, with the mission of “Building trust for a seamless society.”

At this time, the Company will further consolidate the Group’s financial services into Merpay by transferring part of the Company’s payment services business to Merpay as it moves to efficiently expand its financial services business at a faster pace than before.

(2) Method of absorption-type company split

The Company Split will be an absorption-type company split, with the Company as the splitting company and Merpay as the succeeding company.

(3) Details of allotment pertaining to absorption-type company split

There will be no allotment of shares from Merpay to the Company or delivery of cash or other assets upon the Company Split.

(4) Status of accounting treatment to be implemented

The Company Split will be accounted for as a transaction under common control, pursuant to the Accounting Standard for Business Combinations and Guidance on Accounting Standards for Business Combinations and Business Divestitures.