



mercari

Consolidated Financial Results for the Six Months Ended December 31, 2023 [IFRS]

February 13, 2024

Company name: Mercari, Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4385

URL: <https://about.mercari.com/en/>

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Scheduled date of filing quarterly securities report: February 13, 2024

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Available

Schedule of quarterly financial results briefing session: Scheduled

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Six Months Ended December 31, 2023 (the “Period”) (July 1, 2023, to December 31, 2023)

(1) Consolidated Operating Results (cumulative) (% indicates changes from the previous corresponding period.)

| | Revenue | | Core operating profit | | Operating profit | | Profit | |
|-------------------|-----------------|------|-----------------------|------|------------------|------|-----------------|-------|
| Six months ended | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| December 31, 2023 | 92,386 | 10.1 | 8,678 | 56.0 | 7,821 | 60.6 | 4,513 | 333.8 |
| December 31, 2022 | 83,942 | — | 5,561 | — | 4,871 | — | 1,040 | — |

| | Profit attributable to owners of parent | | Total comprehensive income | | Basic earnings per share | Diluted earnings per share |
|-------------------|---|-------|----------------------------|-------|--------------------------|----------------------------|
| Six months ended | Millions of yen | % | Millions of yen | % | Yen | Yen |
| December 31, 2023 | 4,550 | 289.4 | 4,744 | 369.5 | 27.94 | 26.74 |
| December 31, 2022 | 1,168 | — | 1,010 | — | 7.26 | 7.16 |

(Reference) Profit before tax

Six months ended December 31, 2023: ¥8,025 million [66.2%]

Six months ended December 31, 2022: ¥4,828 million [-%]

(Note) Core operating profit is calculated by deducting other income and other expenses from operating profit.

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

(2) Consolidated Financial Position

| | Total assets | Total equity | Equity attributable to owners of parent | Ratio of equity attributable to owners of parent to total assets |
|-------------------------|-----------------|-----------------|---|--|
| | Millions of yen | Millions of yen | Millions of yen | % |
| As of December 31, 2023 | 456,578 | 61,915 | 61,639 | 13.5 |
| As of June 30, 2023 | 418,349 | 55,659 | 55,346 | 13.2 |

2. Dividends

| | Annual dividends | | | | |
|---|------------------|-----------------|-----------------|----------|-------|
| | 1st quarter-end | 2nd quarter-end | 3rd quarter-end | Year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal year ended June 30, 2023 | — | 0.00 | — | 0.00 | 0.00 |
| Fiscal year ending June 30, 2024 | — | 0.00 | | | |
| Fiscal year ending June 30, 2024 (Forecast) | | | — | — | — |

(Note) Revisions to the forecasts of cash dividends most recently announced: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending June 30, 2024 (July 1, 2023, to June 30, 2024)

The consolidated financial results forecast for the current fiscal year is not stated because it is difficult to forecast a reasonable estimate of the full-year financial results. Details concerning the reasons thereof are stated in “1. Qualitative Information Regarding Results for the Period (3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements” on page 4 of the Appendix.

English Translation

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* Notes:

(1) Changes in significant subsidiaries during the Period (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Changes in accounting policies and changes in accounting estimates

- 1) Changes in accounting policies required by IFRS: No
- 2) Changes in accounting policies other than 1) above: No
- 3) Changes in accounting estimates: No

(3) Total number of issued shares (common stock)

1) Total number of issued shares at the end of the Period (including treasury shares):

| | |
|--------------------|--------------------|
| December 31, 2023: | 163,167,809 shares |
| June 30, 2023: | 162,465,598 shares |

2) Total number of treasury shares at the end of the Period:

| | |
|--------------------|------------|
| December 31, 2023: | 191 shares |
| June 30, 2023: | 103 shares |

3) Average number of shares during the Period:

| | |
|-------------------------------------|--------------------|
| Six months ended December 31, 2023: | 162,899,642 shares |
| Six months ended December 31, 2022: | 160,979,237 shares |

* Quarterly Consolidated Financial Results are exempt from quarterly review conducted by certified public accountants or audit firms.

* Explanation of the proper use of financial results forecast and other notes

(Notice concerning forward-looking statements)

The forward-looking statements, including the financial results forecast, contained in these materials are based on information currently available to the Company and certain assumptions deemed reasonable by the Company. As such, they do not constitute guarantees by the Company of future performance. Details concerning the forward-looking statements are stated in “1. Qualitative Information Regarding Results for the Period (3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements” on page 4 of the Appendix.

(Adoption of International Financial Reporting Standards (IFRS))

The Group has adopted International Financial Reporting Standards (IFRS) from the three months ended September 30, 2023. Presentation of figures in the consolidated financial statements for the period of the previous fiscal year also conforms to IFRS. For differences between IFRS and Japanese GAAP in the financial statements, please refer to “2. Condensed Quarterly Consolidated Financial Statements and Primary Notes, (5) Notes to the Condensed Quarterly Consolidated Financial Statements (First-time adoption of IFRS)” on page 17 of the Appendix.

English Translation

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1. Qualitative Information Regarding Results for the Period

Forward-looking matters described in the text were judged as of December 31, 2023.

The Group has adopted IFRS from the three months ended September 30, 2023, and also made a comparative analysis of figures in the consolidated financial statements for the six months ended December 31, 2022, and the fiscal year ended June 30, 2023, by rearranging them under IFRS.

(1) Explanation of Operating Results

The Group has set its Group mission as “Circulate all forms of value to unleash the potential in all people.” To achieve this mission, the Group has been working to accelerate the growth of existing businesses and create new businesses. In addition, the Group is working to establish a global organizational foundation in which diverse talent can thrive, as well as further enhance governance.

In the Marketplace domain, the Group has been striving to focus on top-line growth while continuing disciplined investments as its business policy for the current fiscal year. While Group synergy continued to be created through a loyalty program ^(Note 1), various measures were also promoted in areas to enhance (crossborder transactions, category growth, and B2C). As a result, Marketplace’s gross merchandise value (GMV ^(Note 2)) for the six months ended December 31, 2023, was ¥527.0 billion, an increase of ¥51.7 billion from the corresponding period of the previous fiscal year, with monthly active users (MAU ^(Note 3)) numbering 23.54 million.

In the Fintech domain, the Group has been focusing on acquiring *Mercard* holders and aiming to enhance Group synergy as its business policy for the current fiscal year. Due to strengthened investment, the number of Mercards issued exceeded 2.5 million. With the steady growth of credit services having led to the credit balance ^(Note 4) exceeding ¥150.0 billion, the collection rate ^(Note 5) also reached a favorable level of 99.1%. Furthermore, the number of cryptoasset trading accounts surpassed 1 million just seven months after the launch of the service.

As a result of the above, Japan Region reported revenue of ¥67,548 million (up 15.6% year-on-year) and segment profit of ¥14,281 million (down 8.9% year-on-year) for the six months ended December 31, 2023.

In its US business, the Group’s business policy for the current fiscal year is to aim to get back on track for growth by refining the product to strengthen retention of existing users, as well as to focus on engaging Gen Z for future growth. In addition to implementing efficient marketing initiatives with a focus on energizing existing users, the Group promoted a variety of product strategies aimed mostly at capturing Gen Z, such as conducting trials of face-to-face transactions in certain areas and releasing a community feature. As the slowdown of purchases continued caused by external environmental factors such as inflation, in the six months ended December 31, 2023, while GMV of the US business decreased by \$58 million year-on-year to \$470 million (¥68.8 billion; the exchange rate conversion is the total of the amounts calculated for each month using the average rate during the month), MAU increased for the second consecutive quarter, totaling 5.07 million. Revenue amounted to ¥22,171 million (down 3.7% year-on-year). On the other hand, segment loss improved considerably to ¥2,137 million (versus a segment loss of ¥6,389 million in the corresponding period of the previous fiscal year), resulting from a continued review of expenses through lean business management.

As a result, for the six months ended December 31, 2023, the Group recorded revenue of ¥92,386 million (10.1% increase year-on-year), operating profit of ¥7,821 million (60.6% increase year-on-year), and profit attributable to owners of parent of ¥4,550 million (289.4% increase year-on-year).

(Note 1) The loyalty program is a point-back rewards program that depends on *Mercard* usage. The regular point-back rate is 1% but can be increased to as high as 4% by taking pay, buy, and sell actions (cross-use) for transactions within *Mercari*.

(Note 2) GMV (Gross Merchandise Value) is the total value of merchandise sold during a specified period.

(Note 3) MAU (Monthly Active Users) is defined as the quarterly average number of registered users who accessed the *Mercari* service via app or website at least once during a given month.

(Note 4) *Merpay Smart Payments* (lump-sum and fixed-amount payment) and *Merpay Smart Money* credit balance as of December 31, 2023 (excludes debt converted into bankruptcy reorganization debt, etc.).

(Note 5) Average aggregated rate of the quarterly cumulative collections completed within the past 11 months compared to the amount of *Merpay Smart Payments* (lump-sum payment and fixed-amount payment) and *Merpay Smart Money* billed in the past 11 months (excludes debt converted into bankruptcy reorganization debt, etc.).

(2) Explanation of Financial Position

1) Assets, liabilities, and equity

(Assets)

Assets as of December 31, 2023, increased by ¥38,228 million from the end of the previous fiscal year to ¥456,578 million.

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

- The main reasons for any increases and decreases in cash and cash equivalents are outlined in the Overview of Cash Flows for the Period section below.
- Trade and other receivables increased by ¥39,084 million compared to the end of the previous fiscal year, primarily due to an increase in use of *Merpay Smart Payments* (lump-sum payment and fixed-amount payment).
- Guarantee deposits increased by ¥14,999 million from the end of the previous fiscal year, primarily due to deposits paid based on laws and regulations accompanying the increase in the amounts spent on *Mercari* and *Merpay*.

(Liabilities)

Liabilities as of December 31, 2023, increased by ¥31,972 million from the end of the previous fiscal year to ¥394,662 million.

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

- Borrowings (current liabilities) decreased by ¥30,684 million from the end of the previous fiscal year, primarily due to changes in the liquidation of receivables for fixed-amount payments.
- Bonds and borrowings (non-current liabilities) increased by ¥45,149 million from the end of the previous fiscal year, primarily due to the liquidation of receivables for lump-sum payments and fixed-amount payments.
- Deposits received increased by ¥19,691 million from the end of the previous fiscal year, primarily due to higher spending on *Mercari* and *Merpay*.
- Income taxes payable decreased by ¥3,293 million from the end of the previous fiscal year, primarily due to payment of income taxes.

(Equity)

Equity as of December 31, 2023, increased by ¥6,256 million from the end of the previous fiscal year to ¥61,915 million.

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

- Share capital increased by ¥1,104 million from the end of the previous fiscal year following the issuance of new shares.
- Capital surplus increased by ¥316 million from the end of the previous fiscal year following the issuance of new shares and share-based payment transactions, etc.
- Retained earnings increased by ¥4,726 million from the end of the previous fiscal year due to the recording of net profit attributable to owners of the parent.

2) Overview of cash flows for the period

Cash and cash equivalents (hereinafter referred to as “cash”) for the six months ended December 31, 2023, decreased by ¥16,648 million from the end of the previous fiscal year and amounted to ¥185,173 million as of December 31, 2023.

The status of cash flows and their contributing factors for the six months ended December 31, 2023, are as follows.

(Cash flows from operating activities)

Cash used in operating activities amounted to ¥29,579 million (compared to ¥21,054 million used in the six months ended December 31, 2022). This is primarily attributable to profit before tax of ¥8,025 million, an increase in trade and other receivables of ¥38,978 million, an increase in deposits received of ¥20,004 million, an increase in guarantee deposits of ¥15,000 million, and income taxes paid of ¥6,213 million.

English Translation

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(Cash flows from investing activities)

Cash used in investing activities amounted to ¥270 million (compared to ¥455 million used in the six months ended December 31, 2022). This is primarily attributable to purchase of investment securities of ¥1,026 million and proceeds from refund of leasehold and guarantee deposits of ¥525 million.

(Cash flows from financing activities)

Cash provided by financing activities amounted to ¥13,683 million (compared to ¥12,369 million provided in the six months ended December 31, 2022). This is primarily attributable to net increase (decrease) in short-term borrowings of ¥(21,238) million and proceeds of ¥36,000 million from issuance of bonds and long-term borrowings.

(3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements

To achieve its mission, the Group's policy is to continue business management that has an awareness of the balance between growth and revenue, accelerate growth for existing businesses once again looking toward the next 10 years, and work to create new businesses. At the same time, it is difficult to make projections for consolidated earnings, partly because changes to the external environment, such as inflation, continue to be significant issues and because the Group plans to take a flexible approach to investments in response to business circumstances and environmental changes in order to realize mid- to long-term growth. As such, the Company has not announced forecasts for consolidated earnings.

English Translation

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2. Condensed Quarterly Consolidated Financial Statements and Primary Notes**(1) Condensed Quarterly Consolidated Statement of Financial Position**

(Millions of yen)

| | As of transition date (July 1, 2022) | As of June 30, 2023 | As of December 31, 2023 |
|---------------------------------|---|---------------------|----------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 211,758 | 201,822 | 185,173 |
| Trade and other receivables | 80,422 | 126,752 | 165,836 |
| Deposits paid | 7,093 | 2,708 | 3,167 |
| Other financial assets | — | 196 | 171 |
| Other current assets | 3,258 | 7,165 | 7,775 |
| Total current assets | 302,533 | 338,645 | 362,123 |
| Non-current assets | | | |
| Property, plant and equipment | 2,110 | 1,825 | 1,562 |
| Right-of-use assets | 6,939 | 4,323 | 4,046 |
| Intangible assets | 781 | 855 | 776 |
| Deferred tax assets | 3,366 | 8,297 | 7,972 |
| Guarantee deposits | 26,774 | 61,608 | 76,607 |
| Other financial assets | 2,024 | 1,859 | 2,502 |
| Other non-current assets | 650 | 933 | 986 |
| Total non-current assets | 42,648 | 79,704 | 94,454 |
| Total assets | 345,181 | 418,349 | 456,578 |

English Translation

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(Millions of yen)

| | As of transition date (July 1, 2022) | As of June 30, 2023 | As of December 31, 2023 |
|--|---|---------------------|----------------------------|
| Liabilities and equity | | | |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 20,112 | 20,862 | 22,485 |
| Borrowings | 55,602 | 71,834 | 41,150 |
| Lease liabilities | 2,014 | 1,741 | 1,262 |
| Income taxes payable | 1,409 | 6,517 | 3,224 |
| Deposits received | 139,069 | 163,712 | 183,403 |
| Other financial liabilities | 359 | 1,036 | 2,157 |
| Other current liabilities | 8,461 | 9,206 | 7,701 |
| Total current liabilities | 227,029 | 274,912 | 261,385 |
| Non-current liabilities | | | |
| Bonds and borrowings | 74,302 | 84,533 | 129,683 |
| Lease liabilities | 4,800 | 2,445 | 2,863 |
| Provisions | 512 | 477 | 386 |
| Deferred tax liabilities | 102 | 183 | 206 |
| Other non-current liabilities | 220 | 137 | 136 |
| Total non-current liabilities | 79,938 | 87,777 | 133,276 |
| Total liabilities | 306,967 | 362,689 | 394,662 |
| Equity | | | |
| Share capital | 44,628 | 45,596 | 46,700 |
| Capital surplus | 47,299 | 49,706 | 50,022 |
| Retained earnings | (55,891) | (42,777) | (38,051) |
| Treasury shares | (0) | (0) | (0) |
| Other components of equity | 1,798 | 2,821 | 2,968 |
| Equity attributable to owners of parent | 37,835 | 55,346 | 61,639 |
| Non-controlling interests | 378 | 313 | 276 |
| Total equity | 38,214 | 55,659 | 61,915 |
| Total liabilities and equity | 345,181 | 418,349 | 456,578 |

English Translation

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(2) Condensed Quarterly Consolidated Statement of Profit or Loss and Condensed Quarterly Consolidated Statement of Comprehensive Income
(Condensed Quarterly Consolidated Statement of Profit or Loss)

(Millions of yen)

| | For the six months ended December 31, 2022 | For the six months ended December 31, 2023 |
|--|---|---|
| Revenue | 83,942 | 92,386 |
| Cost of sales | 29,671 | 28,286 |
| Gross profit | 54,271 | 64,100 |
| Selling, general and administrative expenses | 48,709 | 55,421 |
| Other income | 187 | 219 |
| Other expenses | 878 | 1,076 |
| Operating profit | 4,871 | 7,821 |
| Finance income | 176 | 437 |
| Finance costs | 219 | 233 |
| Profit before tax | 4,828 | 8,025 |
| Income tax expense | 3,787 | 3,511 |
| Profit | 1,040 | 4,513 |
| Profit attributable to | | |
| Owners of parent | 1,168 | 4,550 |
| Non-controlling interests | (128) | (37) |
| Profit | 1,040 | 4,513 |
| Earnings per share | | |
| Basic earnings per share (yen) | 7.26 | 27.94 |
| Diluted earnings per share (yen) | 7.16 | 26.74 |

English Translation

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(Millions of yen)

| | For the second quarter ended December 31, 2022 | For the second quarter ended December 31, 2023 |
|--|---|---|
| Revenue | 44,141 | 48,115 |
| Cost of sales | 15,104 | 14,323 |
| Gross profit | 29,036 | 33,791 |
| Selling, general and administrative expenses | 26,074 | 29,829 |
| Other income | 55 | 10 |
| Other expenses | 724 | 628 |
| Operating profit | 2,293 | 3,344 |
| Finance income | 113 | 219 |
| Finance costs | 110 | 115 |
| Profit before tax | 2,296 | 3,448 |
| Income tax expense | 1,811 | 1,749 |
| Profit | 485 | 1,699 |
| Profit attributable to | | |
| Owners of parent | 538 | 1,739 |
| Non-controlling interests | (53) | (40) |
| Profit | 485 | 1,699 |
| Earnings per share | | |
| Basic earnings per share (yen) | 3.34 | 10.67 |
| Diluted earnings per share (yen) | 3.30 | 10.21 |

English Translation

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(Condensed Quarterly Consolidated Statement of Comprehensive Income)**(Millions of yen)**

| | For the six months ended December 31, 2022 | For the six months ended December 31, 2023 |
|--|---|---|
| Profit | 1,040 | 4,513 |
| Other comprehensive income (after considering tax effects) | | |
| Items that will not be reclassified to profit or loss | | |
| Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income | (1) | 340 |
| Items that may be reclassified to profit or loss | | |
| Exchange differences on translation of foreign operations | 102 | (105) |
| Effective portion of change in fair value of cash flow hedges | (131) | (3) |
| Total other comprehensive income (after considering tax effects) | (30) | 231 |
| Comprehensive income | 1,010 | 4,744 |
| Comprehensive income attributable to | | |
| Owners of parent | 1,138 | 4,781 |
| Non-controlling interests | (128) | (36) |
| Comprehensive income | 1,010 | 4,744 |

English Translation

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(Millions of yen)

| | For the second quarter ended December 31, 2022 | For the second quarter ended December 31, 2023 |
|--|---|---|
| Profit | 485 | 1,699 |
| Other comprehensive income (after considering tax effects) | | |
| Items that will not be reclassified to profit or loss | | |
| Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income | 19 | 351 |
| Items that may be reclassified to profit or loss | | |
| Exchange differences on translation of foreign operations | (311) | (335) |
| Effective portion of change in fair value of cash flow hedges | (335) | (191) |
| Total other comprehensive income (after considering tax effects) | (626) | (175) |
| Comprehensive income | (140) | 1,523 |
| Comprehensive income attributable to | | |
| Owners of parent | (87) | 1,567 |
| Non-controlling interests | (53) | (43) |
| Comprehensive income | (140) | 1,523 |

English Translation

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(3) Condensed Quarterly Consolidated Statement of Changes in Equity
For the six months ended December 31, 2022

(Millions of yen)

| | Equity attributable to owners of parent | | | | | |
|----------------------------------|---|-----------------|-------------------|-----------------|----------------------------|---|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Other components of equity | |
| | | | | | Share acquisition rights | Exchange differences on translation of foreign operations |
| Balance as of July 1, 2022 | 44,628 | 47,299 | (55,891) | (0) | 1,831 | – |
| Profit | | | 1,168 | | | |
| Other comprehensive income | | | | | | 102 |
| Comprehensive income | – | – | 1,168 | – | – | 102 |
| Issuance of shares | 295 | 295 | | | (540) | |
| Share-based payment transactions | | 925 | | | 806 | |
| Total transactions with owners | 295 | 1,221 | – | – | 265 | – |
| Balance as of December 31, 2022 | 44,924 | 48,520 | (54,722) | (0) | 2,097 | 102 |

| | Equity attributable to owners of parent | | | | | |
|----------------------------------|---|--|-------|---|---------------------------|--------------|
| | Other components of equity | | Total | Total equity attributable to owners of parent | Non-controlling interests | Total equity |
| | Effective portion of change in fair value of cash flow hedges | Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income | | | | |
| Balance as of July 1, 2022 | – | (32) | 1,798 | 37,835 | 378 | 38,214 |
| Profit | | | | 1,168 | (128) | 1,040 |
| Other comprehensive income | (131) | (1) | (30) | (30) | | (30) |
| Comprehensive income | (131) | (1) | (30) | 1,138 | (128) | 1,010 |
| Issuance of shares | | | (540) | 50 | | 50 |
| Share-based payment transactions | | | 806 | 1,732 | | 1,732 |
| Total transactions with owners | – | – | 265 | 1,783 | – | 1,783 |
| Balance as of December 31, 2022 | (131) | (34) | 2,034 | 40,757 | 250 | 41,008 |

English Translation

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For the six months ended December 31, 2023

(Millions of yen)

| | Equity attributable to owners of parent | | | | Other components of equity | |
|---|---|-----------------|-------------------|-----------------|----------------------------|---|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Share acquisition rights | Exchange differences on translation of foreign operations |
| | | | | | | |
| Balance as of July 1, 2023 | 45,596 | 49,706 | (42,777) | (0) | 2,272 | 694 |
| Profit | | | 4,550 | | | |
| Other comprehensive income | | | | | | (105) |
| Comprehensive income | — | — | 4,550 | — | — | (105) |
| Issuance of shares | 1,104 | (530) | | | (453) | |
| Purchase of treasury shares | | | | (0) | | |
| Share-based payment transactions | | 846 | | | 544 | |
| Transfer from other components of equity to retained earnings | | | 175 | | | |
| Total transactions with owners | 1,104 | 316 | 175 | (0) | 91 | — |
| Balance as of December 31, 2023 | 46,700 | 50,022 | (38,051) | (0) | 2,363 | 588 |

| | Equity attributable to owners of parent | | | | | |
|---|---|--|-------|---|---------------------------|--------------|
| | Other components of equity | | | | | |
| | Effective portion of change in fair value of cash flow hedges | Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income | Total | Total equity attributable to owners of parent | Non-controlling interests | Total equity |
| Balance as of July 1, 2023 | 159 | (305) | 2,821 | 55,346 | 313 | 55,659 |
| Profit | | | | 4,550 | (37) | 4,513 |
| Other comprehensive income | (3) | 340 | 55 | 230 | 0 | 230 |
| Comprehensive income | (3) | 340 | 55 | 4,781 | (36) | 4,744 |
| Issuance of shares | | | (453) | 121 | | 121 |
| Purchase of treasury shares | | | | (0) | | (0) |
| Share-based payment transactions | | | 544 | 1,390 | | 1,390 |
| Transfer from other components of equity to retained earnings | | (175) | (175) | – | | – |
| Total transactions with owners | – | (175) | △84 | 1,511 | – | 1,511 |
| Balance as of December 31, 2023 | 156 | (140) | 2,968 | 61,639 | 276 | 61,915 |

English Translation

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(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

| | For the six months ended December 31, 2022 | For the six months ended December 31, 2023 |
|--|---|---|
| Cash flows from operating activities | | |
| Profit before tax | 4,828 | 8,025 |
| Depreciation and amortization | 1,350 | 1,161 |
| Interest and dividend income | (176) | (437) |
| Interest expenses | 76 | 89 |
| Decrease (increase) in trade and other receivables | (23,330) | (38,978) |
| Change in deposits paid | 4,708 | (474) |
| Increase (decrease) in trade and other payables | 2,381 | 1,658 |
| Change in deposits received | 16,959 | 20,004 |
| Other | (1,845) | 226 |
| Subtotal | 4,952 | (8,725) |
| Interest received | 176 | 429 |
| Interest paid | (78) | (89) |
| Change in guarantee deposits | (24,999) | (15,000) |
| Income taxes paid | (1,261) | (6,213) |
| Other | 156 | 19 |
| Net cash provided by (used in) operating activities | (21,054) | (29,579) |
| Cash flows from investing activities | | |
| Purchase of investment securities | (221) | (1,026) |
| Purchase of property, plant and equipment | (467) | (34) |
| Proceeds from refund of leasehold and guarantee deposits | 133 | 525 |
| Other | 100 | 265 |
| Net cash provided by (used in) investing activities | (455) | (270) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | 1,411 | (21,238) |
| Proceeds from issuance of bonds and long-term borrowings | 12,000 | 36,000 |
| Redemption of bonds and repayments of long-term borrowings | (200) | (440) |
| Proceeds from issuance of shares | 50 | 120 |
| Other | (891) | (758) |
| Net cash provided by (used in) financing activities | 12,369 | 13,683 |
| Effect of exchange rate changes on cash and cash equivalents | (427) | (483) |
| Net increase (decrease) in cash and cash equivalents | (9,566) | (16,648) |
| Cash and cash equivalents at beginning of period | 211,758 | 201,822 |
| Cash and cash equivalents at end of period | 202,192 | 185,173 |

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

(5) Notes to the Condensed Quarterly Consolidated Financial Statements

Notes on going concern assumption

Not applicable.

Segment information

(1) Overview of reportable segments

Financial information for Company Group operating segments separated according to business segment is available. This information is subject to periodic review in order to allow the Board of Directors and the Executive Committee to determine the distribution of management resources and to evaluate business results. The Company Group classifies the report segments as “Japan Region,” for which the Company Group operates its core business of the *Mercari* marketplace in Japan, and “US,” for which the Company Group operates the *Mercari* (US) marketplace app in the United States of America. The Company Group also proposes and determines Group strategies along these segment lines.

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

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

(2) Information regarding profit or loss by reportable segments

Profit by reportable segment is based on operating profit.

Intersegment revenue is based on actual market price.

For the six months ended December 31, 2022

(Millions of yen)

| | Reportable segments | | | Other (Note 1) | Total | Adjustments | Consolidated |
|---------------------------------------|---------------------|---------|--------|-------------------|--------|-------------|--------------|
| | Japan Region | US | Total | | | | |
| Revenue | | | | | | | |
| Marketplace | 49,189 | 23,022 | 72,211 | — | 72,211 | — | 72,211 |
| Fintech | 9,237 | — | 9,237 | — | 9,237 | — | 9,237 |
| Other | — | — | — | 2,492 | 2,492 | — | 2,492 |
| Revenue from contracts with customers | 58,427 | 23,022 | 81,449 | 2,492 | 83,942 | — | 83,942 |
| Revenue from external customers | 58,427 | 23,022 | 81,449 | 2,492 | 83,942 | — | 83,942 |
| Intersegment revenue | — | — | — | 260 | 260 | (260) | — |
| Total | 58,427 | 23,022 | 81,449 | 2,753 | 84,202 | (260) | 83,942 |
| Segment profit (loss) | 15,684 | (6,389) | 9,295 | (428) | 8,866 | (3,995) | 4,871 |
| Finance income | — | — | — | — | — | — | 176 |
| Finance costs | — | — | — | — | — | — | 219 |
| Profit before tax | — | — | — | — | — | — | 4,828 |

(Notes) 1. The “Other” column includes business segments that are not included in the reportable segments, such as the sports business.

- Adjustments for segment profit (loss) mainly consist of general and administrative expenses that are not attributable to reportable segments.
- For “US,” the amount of delivery revenue is recognized at the full amount of consideration received from the customer, which is recorded as ¥13,027 million.
- “Revenue” of ¥83,942 million recorded in the condensed quarterly consolidated statement of profit or loss is mainly “revenue recognized from contracts with customers.” Revenue recognized from other sources is mainly financial revenue arising from credit services. It is included in revenue from contracts with customers for disclosure.

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

For the six months ended December 31, 2023

(Millions of yen)

| | Reportable segments | | | Other (Note 1) | Total | Adjustments | Consolidated |
|--|---------------------|---------|--------|-------------------|--------|-------------|--------------|
| | Japan Region | US | Total | | | | |
| Revenue | | | | | | | |
| Marketplace | 53,549 | 22,171 | 75,721 | – | 75,721 | – | 75,721 |
| Fintech | 13,999 | – | 13,999 | – | 13,999 | – | 13,999 |
| Other | – | – | – | 2,665 | 2,665 | – | 2,665 |
| Revenue from contracts with customers | 67,548 | 22,171 | 89,720 | 2,665 | 92,386 | – | 92,386 |
| Revenue from external customers | 67,548 | 22,171 | 89,720 | 2,665 | 92,386 | – | 92,386 |
| Intersegment revenue | – | – | – | 596 | 596 | (596) | – |
| Total | 67,548 | 22,171 | 89,720 | 3,261 | 92,982 | (596) | 92,386 |
| Segment profit (loss) | 14,281 | (2,137) | 12,144 | (76) | 12,067 | (4,246) | 7,821 |
| Finance income | – | – | – | – | – | – | 437 |
| Finance costs | – | – | – | – | – | – | 233 |
| Profit before tax | – | – | – | – | – | – | 8,025 |

- (Notes) 1. The “Other” column includes business segments that are not included in the reportable segments, such as the sports business.
2. Adjustments for segment profit (loss) mainly consist of general and administrative expenses that are not attributable to reportable segments.
3. For “US,” the amount of delivery revenue is recognized at the full amount of consideration received from the customer, which is recorded as ¥12,755 million.
4. “Revenue” of ¥92,386 million recorded in the condensed quarterly consolidated statement of profit or loss is mainly “revenue recognized from contracts with customers.” Revenue recognized from other sources is mainly financial revenue arising from credit services. It is included in revenue from contracts with customers for disclosure.

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

For the second quarter ended December 31, 2022

(Millions of yen)

| | Reportable segments | | | Other (Note 1) | Total | Adjustments | Consolidated |
|---------------------------------------|---------------------|---------|--------|-------------------|--------|-------------|--------------|
| | Japan Region | US | Total | | | | |
| Revenue | | | | | | | |
| Marketplace | 26,313 | 11,929 | 38,242 | — | 38,242 | — | 38,242 |
| Fintech | 4,655 | — | 4,655 | — | 4,655 | — | 4,655 |
| Other | — | — | — | 1,243 | 1,243 | — | 1,243 |
| Revenue from contracts with customers | 30,968 | 11,929 | 42,898 | 1,243 | 44,141 | — | 44,141 |
| Revenue from external customers | 30,968 | 11,929 | 42,898 | 1,243 | 44,141 | — | 44,141 |
| Intersegment revenue | — | — | — | 40 | 40 | (40) | — |
| Total | 30,968 | 11,929 | 42,898 | 1,283 | 44,181 | (40) | 44,141 |
| Segment profit (loss) | 7,741 | (3,278) | 4,462 | (175) | 4,287 | (1,993) | 2,293 |
| Finance income | — | — | — | — | — | — | 113 |
| Finance costs | — | — | — | — | — | — | 110 |
| Profit before tax | — | — | — | — | — | — | 2,296 |

(Notes) 1. The “Other” column includes business segments that are not included in the reportable segments, such as the sports business.

2. Adjustments for segment profit (loss) mainly consist of general and administrative expenses that are not attributable to reportable segments.

3. For “US,” the amount of delivery revenue is recognized at the full amount of consideration received from the customer, which is recorded as ¥6,775 million.

4. “Revenue” of ¥44,141 million recorded in the condensed quarterly consolidated statement of profit or loss is mainly “revenue recognized from contracts with customers.” Revenue recognized from other sources is mainly financial revenue arising from credit services. It is included in revenue from contracts with customers for disclosure.

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

For the second quarter ended December 31, 2023

(Millions of yen)

| | Reportable segments | | | Other (Note 1) | Total | Adjustments | Consolidated |
|---------------------------------------|---------------------|---------|--------|-------------------|--------|-------------|--------------|
| | Japan Region | US | Total | | | | |
| Revenue | | | | | | | |
| Marketplace | 28,272 | 11,093 | 39,366 | – | 39,366 | – | 39,366 |
| Fintech | 7,437 | – | 7,437 | – | 7,437 | – | 7,437 |
| Other | – | – | – | 1,311 | 1,311 | – | 1,311 |
| Revenue from contracts with customers | 35,709 | 11,093 | 46,803 | 1,311 | 48,115 | – | 48,115 |
| Revenue from external customers | 35,709 | 11,093 | 46,803 | 1,311 | 48,115 | – | 48,115 |
| Intersegment revenue | – | – | – | 307 | 307 | (307) | – |
| Total | 35,709 | 11,093 | 46,803 | 1,618 | 48,422 | (307) | 48,115 |
| Segment profit (loss) | 6,863 | (1,438) | 5,424 | (109) | 5,315 | (1,970) | 3,344 |
| Finance income | – | – | – | – | – | – | 219 |
| Finance costs | – | – | – | – | – | – | 115 |
| Profit before tax | – | – | – | – | – | – | 3,448 |

(Notes) 1. The “Other” column includes business segments that are not included in the reportable segments, such as the sports business.

- Adjustments for segment profit (loss) mainly consist of general and administrative expenses that are not attributable to reportable segments.
- For “US,” the amount of delivery revenue is recognized at the full amount of consideration received from the customer, which is recorded as ¥6,581 million.
- “Revenue” of ¥48,115 million recorded in the condensed quarterly consolidated statement of profit or loss is mainly “revenue recognized from contracts with customers.” Revenue recognized from other sources is mainly financial revenue arising from credit services. It is included in revenue from contracts with customers for disclosure.

First-time adoption of IFRS

The Group has prepared its condensed quarterly consolidated financial statements in accordance with IFRS from the first quarter of the fiscal year ending June 30, 2024 (from July 1, 2023, to September 30, 2023).

The most recent consolidated financial statements prepared in accordance with Japanese GAAP are those for the one year ended June 30, 2023, and the date of transition to IFRS is July 1, 2022.

(1) Exemptions from retrospective application

As a general rule, IFRS 1 requires a company adopting IFRS for the first time to apply IFRS retrospectively. However, as an exception, IFRS 1 allows a first-time adopter to optionally elect for retrospective application of some IFRS requirements and prohibits retrospective application of some provisions.

The Group applied the following exemptions among exemptions from retrospective application set forth in IFRS 1.

1) Business combinations

IFRS 1 allows a first-time adopter to elect not to apply IFRS 3 “Business Combinations” (hereinafter “IFRS 3”) retrospectively to business combinations conducted before the date of transition to IFRS.

The Group has applied this exemption and elected not to apply IFRS 3 retrospectively to business combinations conducted before the transition date.

2) Exchange differences on translation of foreign operations

IFRS 1 allows a first-time adopter to elect to deem the cumulative exchange differences on translation of all foreign operations to be zero at the date of transition to IFRS.

The Group elected to deem the cumulative exchange differences on translation of all foreign operations to be zero at the transition date.

3) Share-based payment

IFRS 1 allows a first-time adopter to elect not to apply IFRS 2 “Share-based Payment” (hereinafter “IFRS 2”) to share-based compensation vested before the date of transition to IFRS.

The Group elected not to apply IFRS 2 to share-based compensation vested before the transition date.

4) Designation of financial instruments recognized before the transition date

IFRS 1 allows classification under IFRS 9 “Financial Instruments” to be judged based on facts and circumstances that exist at the transition date, instead of facts and circumstances that exist at initial recognition.

In addition, IFRS 1 allows a first-time adopter to designate changes in fair value of equity instruments as financial assets measured at fair value through other comprehensive income based on facts and circumstances that exist at the transition date.

As for financial instruments recognized before the date of transition to IFRS, the Group has designated equity instruments as financial assets measured at fair value through other comprehensive income based on facts and circumstances that existed at the transition date.

5) Leases

With regard to a first-time adopter’s leases as the lessee, IFRS 1 allows the first-time adopter to judge at the date of transition to IFRS whether or not a contract contains a lease.

In addition, a first-time adopter is allowed to measure a lease liability at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the transition date, and measure a right-of-use asset at an amount equal to the lease liability.

Furthermore, it is allowed to recognize leases for which the lease term ends within 12 months of the transition date and leases for which the underlying asset is of low value as expenses.

Applying these exemptions, the Group judged whether or not a contract contains a lease based on facts and circumstances that existed at the transition date and measured a lease liability at the present value discounted using the lessee’s incremental borrowing rate at the transition date, as well as a right-of-use asset at the equal amount.

6) Decommissioning liabilities included in the cost of property, plant and equipment

As for certain changes in decommissioning, restoration, and similar liabilities included in cost of property, plant and equipment arising on or before the transition date, IFRS 1 allows a first-time adopter to measure liabilities at the transition date, estimate the amount that would have been included in cost when the liabilities were first incurred by discounting the liabilities up to the time of incurrence, and calculate accumulated depreciation of the amount using the depreciation policy employed by the company based on the current estimate of useful lives of the assets.

The Group elected this exemption and calculated liabilities and accumulated depreciation.

(2) Reconciliations between Japanese GAAP and IFRS

The reconciliations required to be disclosed at the first-time adoption of IFRS are as follows.

Under Japanese GAAP, the Group has applied “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ Practical Issues Task Force Report No. 42, August 12, 2021), which provides for accounting treatment and disclosure of corporation tax, local corporation tax, and tax effect accounting in the case of applying the Group Tax Sharing System from July 1, 2022, and the Japanese GAAP column in the following table reflects effects of the change in accounting policy.

In the reconciliations below, “Reclassification” includes items that do not affect retained earnings and comprehensive income, while “Differences in recognition and measurement” include items that affect retained earnings and comprehensive income.

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

Reconciliations of equity as of July 1, 2022 (transition date)

(Millions of yen)

| Line items under Japanese GAAP | Japanese GAAP | Reclassification | Differences in recognition and measurement | IFRS | Note | Line items under IFRS |
|---------------------------------|---------------|------------------|--|---------|---------|-------------------------------|
| Assets | | | | | | Assets |
| Current assets | | | | | | Current assets |
| Cash on hand and in banks | 211,406 | – | 352 | 211,758 | | Cash and cash equivalents |
| Trade accounts receivable | 4,454 | 76,680 | (712) | 80,422 | (b) (c) | Trade and other receivables |
| Other receivable | 80,287 | (80,287) | – | – | (b) | |
| Prepaid expenses | 2,805 | (2,805) | – | – | (d) (e) | |
| Deposits paid | 7,093 | – | – | 7,093 | | Deposits paid |
| Other current assets | 2,156 | 1,246 | (143) | 3,258 | (d) 1) | Other current assets |
| Allowance for doubtful accounts | (4,807) | 4,807 | – | – | (c) | |
| Total current assets | 303,396 | (358) | (503) | 302,533 | | Total current assets |
| Non-current assets | | | | | | Non-current assets |
| Property and equipment | 3,462 | (917) | (433) | 2,110 | (f) 3) | Property, plant and equipment |
| | – | 917 | 6,022 | 6,939 | (f) 2) | Right-of-use assets |
| Intangible assets | 666 | 657 | (543) | 781 | (d) 3) | Intangible assets |
| Investments and other assets | | | | | | |
| Investment securities | 117 | (117) | – | – | (g) 4) | |
| Lease deposits | 1,614 | (1,614) | – | – | (g) | |
| Deferred tax assets | 3,076 | – | 289 | 3,366 | 5) | Deferred tax assets |
| Guarantee deposits | 26,774 | – | – | 26,774 | | Guarantee deposits |
| | – | 1,732 | 292 | 2,024 | (g) 4) | Other financial assets |
| Other assets | 413 | (298) | 535 | 650 | 1) 3) | Other non-current assets |
| Total non-current assets | 36,125 | 358 | 6,163 | 42,648 | | Total non-current assets |
| Total assets | 339,521 | – | 5,659 | 345,181 | | Total assets |

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

(Millions of yen)

| Line items under Japanese GAAP | Japanese GAAP | Reclassification | Differences in recognition and measurement | IFRS | Note | Line items under IFRS |
|---|---------------|------------------|--|---------|------------|-------------------------------|
| Liabilities | | | | | | Liabilities and equity |
| Current liabilities | | | | | | Liabilities |
| | – | 20,133 | (20) | 20,112 | (h) | Current liabilities |
| Short-term borrowings | 54,254 | 1,348 | – | 55,602 | (i) | Trade and other payables |
| Current portion of long-term borrowings | 1,348 | (1,348) | – | – | (i) | Borrowings |
| | – | 199 | 1,815 | 2,014 | (f) 2) | Lease liabilities |
| Accounts payable | 18,217 | (18,217) | – | – | (h) | |
| Accrued expenses | 1,915 | (1,915) | – | – | (h) | |
| Income taxes payable | 1,525 | – | (116) | 1,409 | | Income taxes payable |
| Deposits received | 139,094 | – | (25) | 139,069 | | Deposits received |
| Provision for bonuses | 1,389 | (1,389) | – | – | (k) | |
| Provision for point certificates | 359 | – | – | 359 | (g) | Other financial liabilities |
| Provision for share-based compensation | 91 | (91) | – | – | (l) | |
| Other current liabilities | 6,525 | 1,189 | 745 | 8,461 | (f) (k) 6) | Other current liabilities |
| Total current liabilities | 224,722 | (91) | 2,398 | 227,029 | | Total current liabilities |
| Non-current liabilities | | | | | | Non-current liabilities |
| Convertible-bond-type bonds with stock acquisition rights | 50,000 | 25,749 | (1,446) | 74,302 | (i) 7) | Bonds and borrowings |
| Long-term borrowings | 25,749 | (25,749) | – | – | (i) | |
| | – | 820 | 3,979 | 4,800 | (f) 2) | Lease liabilities |
| Retirement benefit liability | 75 | (75) | – | – | (k) | |
| Asset retirement obligations | 126 | – | 386 | 512 | (j) | Provisions |
| Deferred tax liabilities | 162 | – | (60) | 102 | 5) | Deferred tax liabilities |
| Other non-current liabilities | 1,028 | (745) | (62) | 220 | (f) (k) | Other non-current liabilities |
| Total non-current liabilities | 77,141 | – | 2,796 | 79,938 | | Total non-current liabilities |
| Total liabilities | 301,864 | (91) | 5,194 | 306,967 | | Total liabilities |

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

| Line items under Japanese GAAP | Japanese GAAP | Reclassification | Differences in recognition and measurement | IFRS | Note | Line items under IFRS |
|--|---------------|------------------|--|----------|---------------------|---|
| Net assets | | | | | | |
| Shareholders' equity | | | | | | Equity |
| Capital stock | 44,628 | — | — | 44,628 | | Share capital |
| Capital surplus | 44,582 | 91 | 2,624 | 47,299 | (l) | Capital surplus |
| Retained earnings | (54,098) | — | (1,792) | (55,891) | 12) | Retained earnings |
| (Accumulated deficit) | | | | | | |
| Treasury stock | (0) | — | — | (0) | | Treasury shares |
| Accumulated other comprehensive income | 1,303 | 926 | (431) | 1,798 | (m) 4) 9) 11) | Other components of equity |
| Stock acquisition rights | 926 | (926) | — | — | (m) | |
| | 37,343 | 91 | 400 | 37,835 | | Total equity attributable to owners of parent |
| Non-controlling interests | 314 | — | 64 | 378 | | Non-controlling interests |
| Total net assets | 37,657 | 91 | 464 | 38,214 | | Total equity |
| Total liabilities and net assets | 339,521 | — | 5,659 | 345,181 | | Total liabilities and equity |

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

Reconciliations of equity as of December 31, 2022 (end of second quarter of the previous fiscal year)
(Millions of yen)

| Line items under Japanese GAAP | Japanese GAAP | Reclassification | Differences in recognition and measurement | IFRS | Note | Line items under IFRS |
|---------------------------------|---------------|------------------|--|---------|---------|-------------------------------|
| Assets | | | | | | Assets |
| Current assets | | | | | | Current assets |
| Cash on hand and in banks | 199,777 | 2,657 | (243) | 202,192 | (a) | Cash and cash equivalents |
| Trade accounts receivable | 5,443 | 98,413 | (108) | 103,747 | (b) (c) | Trade and other receivables |
| Securities | 2,657 | (2,657) | — | — | (a) | |
| Other receivable | 97,667 | (97,667) | — | — | (b) | |
| Prepaid expenses | 2,190 | (2,190) | — | — | (d) (e) | |
| Deposits paid | 2,356 | — | — | 2,356 | | Deposits paid |
| Other current assets | 9,159 | (3,475) | 194 | 5,878 | (d) 1) | Other current assets |
| Allowance for doubtful accounts | (4,656) | 4,656 | — | — | (c) | |
| Total current assets | 314,595 | (263) | (157) | 314,174 | | Total current assets |
| Non-current assets | | | | | | Non-current assets |
| Property and equipment | 3,168 | (612) | 316 | 2,872 | (f) 3) | Property, plant and equipment |
| | — | 612 | 3,905 | 4,518 | (f) 2) | Right-of-use assets |
| Intangible assets | 610 | 446 | (387) | 669 | (d) 3) | Intangible assets |
| Investments and other assets | | | | | | |
| Investment securities | 275 | (275) | — | — | (g) 4) | |
| Lease deposits | 1,474 | (1,474) | — | — | (g) | |
| Deferred tax assets | 3,104 | — | 1,060 | 4,164 | 5) | Deferred tax assets |
| Guarantee deposits | 51,773 | — | — | 51,773 | | Guarantee deposits |
| | — | 1,749 | 356 | 2,106 | (g) 4) | Other financial assets |
| Other assets | 273 | (182) | 671 | 762 | 1) 3) | Other non-current assets |
| Total non-current assets | 60,679 | 263 | 5,922 | 66,866 | | Total non-current assets |
| Total assets | 375,275 | — | 5,765 | 381,040 | | Total assets |

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

(Millions of yen)

| Line items under Japanese GAAP | Japanese GAAP | Reclassification | Differences in recognition and measurement | IFRS | Note | Line items under IFRS |
|---|---------------|------------------|--|---------|----------------|-------------------------------|
| Liabilities | | | | | | Liabilities and equity |
| Current liabilities | | | | | | Liabilities |
| | — | 22,538 | (108) | 22,430 | (h) | Current liabilities |
| Short-term borrowings | 55,665 | 1,928 | — | 57,594 | (i) | Trade and other payables |
| Current portion of long-term borrowings | 1,928 | (1,928) | — | — | (i) | Borrowings |
| | — | 154 | 1,668 | 1,822 | (f) 2) | Lease liabilities |
| Accounts payable | 20,865 | (20,865) | — | — | (h) | |
| Accrued expenses | 1,672 | (1,672) | — | — | (h) | |
| Income taxes payable | 4,123 | — | 486 | 4,609 | | Income taxes payable |
| Deposits received | 155,372 | — | 252 | 155,624 | | Deposits received |
| Provision for bonuses | 1,660 | (1,660) | — | — | (k) | |
| | — | 897 | — | 897 | (g) | Other financial liabilities |
| Provision for point certificates | 707 | (707) | — | — | (g) | |
| Provision for share-based compensation | 318 | (318) | — | — | (l) | |
| Other current liabilities | 4,516 | 1,316 | 1,288 | 7,121 | (f) (g) (k) 6) | Other current liabilities |
| Total current liabilities | 246,830 | (318) | 3,587 | 250,099 | | Total current liabilities |
| Non-current liabilities | — | — | — | — | | Non-current liabilities |
| Convertible-bond-type bonds with stock acquisition rights | 50,000 | 36,970 | (1,303) | 85,666 | (i) 7) | Bonds and borrowings |
| Long-term borrowings | 36,970 | (36,970) | — | — | (i) | |
| | — | 554 | 2,861 | 3,415 | (f) 2) | Lease liabilities |
| Retirement benefit liability | 46 | (46) | — | — | (k) | |
| Asset retirement obligations | 126 | — | 351 | 477 | (j) | Provisions |
| Deferred tax liabilities | 158 | — | (34) | 124 | 5) | Deferred tax liabilities |
| Other non-current liabilities | 749 | (508) | 8 | 249 | (f) (k) | Other non-current liabilities |
| Total non-current liabilities | 88,050 | — | 1,882 | 89,933 | | Total non-current liabilities |
| Total liabilities | 334,880 | (318) | 5,470 | 340,032 | | Total liabilities |

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

(Millions of yen)

| Line items under Japanese GAAP | Japanese GAAP | Reclassification | Differences in recognition and measurement | IFRS | Note | Line items under IFRS |
|---|---------------|------------------|--|----------|---------------|---|
| Net assets | | | | | | |
| Shareholders' equity | | | | | | Equity |
| Capital stock | 45,073 | — | (148) | 44,924 | | Share capital |
| Capital surplus | 45,026 | 318 | 3,176 | 48,520 | (l) | Capital surplus |
| Retained earnings (Accumulated deficit) | (52,554) | — | (2,167) | (54,722) | 12) | Retained earnings |
| Treasury stock | (0) | — | — | (0) | | Treasury shares |
| Accumulated other comprehensive income | 1,221 | 1,057 | (244) | 2,034 | (m) 4) 9) 11) | Other components of equity |
| Stock acquisition rights | 1,057 | (1,057) | — | — | (m) | |
| | 39,823 | 318 | 615 | 40,757 | | Total equity attributable to owners of parent |
| Non-controlling interests | 571 | — | (320) | 250 | | Non-controlling interests |
| Total net assets | 40,394 | 318 | 294 | 41,008 | | Total equity |
| Total liabilities and net assets | 375,275 | — | 5,765 | 381,040 | | Total liabilities and equity |

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

Reconciliations of equity as of June 30, 2023 (end of the previous fiscal year)

(Millions of yen)

| Line items under Japanese GAAP | Japanese GAAP | Reclassification | Differences in recognition and measurement | IFRS | Note | Line items under IFRS |
|---------------------------------|---------------|------------------|--|---------|---------------|-------------------------------|
| Assets | | | | | | Assets |
| Current assets | | | | | | Current assets |
| Cash on hand and in banks | 196,271 | 5,775 | (224) | 201,822 | (a) | Cash and cash equivalents |
| Trade accounts receivable | 6,374 | 120,995 | (616) | 126,752 | (b) (c) | Trade and other receivables |
| Securities | 5,775 | (5,775) | — | — | (a) | |
| Other receivable | 115,714 | (115,714) | — | — | (b) | |
| Prepaid expenses | 2,261 | (2,261) | — | — | (d) (e) | |
| Deposits paid | 2,708 | — | 0 | 2,708 | | Deposits paid |
| | — | 196 | — | 196 | (g) | Other financial assets |
| Other current assets | 16,994 | (8,988) | (840) | 7,165 | (d) (g) 1) 8) | Other current assets |
| Allowance for doubtful accounts | (5,455) | 5,455 | — | — | (c) | |
| Total current assets | 340,644 | (317) | (1,682) | 338,645 | | Total current assets |
| Non-current assets | | | | | | Non-current assets |
| Property and equipment | 2,781 | (438) | (517) | 1,825 | (f) 3) | Property, plant and equipment |
| | — | 438 | 3,885 | 4,323 | (f) 2) | Right-of-use assets |
| Intangible assets | 584 | 588 | (317) | 855 | (d) 3) | Intangible assets |
| Investments and other assets | | | | | | |
| Investment securities | 78 | (78) | — | — | (g) 4) | |
| Lease deposits | 1,407 | (1,407) | — | — | (g) | |
| Deferred tax assets | 7,802 | — | 494 | 8,297 | 5) | Deferred tax assets |
| Guarantee deposits | 61,608 | — | — | 61,608 | | Guarantee deposits |
| | — | 1,485 | 373 | 1,859 | (g) 4) | Other financial assets |
| Other assets | 385 | (271) | 819 | 933 | 1) 3) | Other non-current assets |
| Total non-current assets | 74,648 | 317 | 4,738 | 79,704 | | Total non-current assets |
| Total assets | 415,292 | — | 3,056 | 418,349 | | Total assets |

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

(Millions of yen)

| Line items under Japanese GAAP | Japanese GAAP | Reclassification | Differences in recognition and measurement | IFRS | Note | Line items under IFRS |
|---|---------------|------------------|--|---------|---------------|-------------------------------|
| Liabilities | | | | | | Liabilities and equity |
| Current liabilities | | | | | | Liabilities |
| | — | 20,994 | (131) | 20,862 | (h) | Current liabilities |
| Short-term borrowings | 55,121 | 16,713 | — | 71,834 | (i) | Trade and other payables |
| Current portion of long-term borrowings | 16,713 | (16,713) | — | — | (i) | Borrowings |
| | — | 104 | 1,636 | 1,741 | (f) 2) | Lease liabilities |
| Accounts payable | 19,509 | (19,509) | — | — | (h) | |
| Accrued expenses | 1,485 | (1,485) | — | — | (h) | |
| Income taxes payable | 6,627 | — | (110) | 6,517 | | Income taxes payable |
| Deposits received | 163,402 | — | 309 | 163,712 | | Deposits received |
| Provision for bonuses | 1,914 | (1,914) | — | — | (k) | |
| Provision for point certificates | 1,036 | — | — | 1,036 | (g) | Other financial liabilities |
| Provision for share-based compensation | 209 | (209) | — | — | (l) | |
| Other current liabilities | 7,588 | 1,809 | (191) | 9,206 | (f) (k) 6) 8) | Other current liabilities |
| Total current liabilities | 273,608 | (209) | 1,512 | 274,912 | | Total current liabilities |
| Non-current liabilities | | | | | | Non-current liabilities |
| Convertible-bond-type bonds with stock acquisition rights | 50,000 | 35,696 | (1,163) | 84,533 | (i) 7) | Bonds and borrowings |
| Long-term borrowings | 35,696 | (35,696) | — | — | (i) | |
| | — | 370 | 2,074 | 2,445 | (f) 2) | Lease liabilities |
| Retirement benefit liability | 42 | (42) | — | — | (k) | |
| Asset retirement obligations | 126 | — | 351 | 477 | (j) | Provisions |
| Deferred tax liabilities | 138 | — | 45 | 183 | 5) | Deferred tax liabilities |
| Other non-current liabilities | 451 | (328) | 13 | 137 | (f) (k) | Other non-current liabilities |
| Total non-current liabilities | 86,454 | — | 1,322 | 87,777 | | Total non-current liabilities |
| Total liabilities | 360,063 | (209) | 2,835 | 362,689 | | Total liabilities |

English Translation

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| Line items under Japanese GAAP | Japanese GAAP | Reclassification | Differences in recognition and measurement | IFRS | Note | Line items under IFRS |
|---|---------------|------------------|--|----------|---------------|---|
| Net assets | | | | | | |
| Shareholders' equity | | | | | | Equity |
| Capital stock | 46,052 | — | (455) | 45,596 | | Share capital |
| Capital surplus | 46,005 | 209 | 3,491 | 49,706 | (l) | Capital surplus |
| Retained earnings (Accumulated deficit) | (40,687) | — | (2,090) | (42,777) | 12) | Retained earnings |
| Treasury stock | (0) | — | — | (0) | | Treasury shares |
| Accumulated other comprehensive income | 2,211 | 1,092 | (482) | 2,821 | (m) 4) 9) 11) | Other components of equity |
| Stock acquisition rights | 1,092 | (1,092) | — | — | (m) | |
| | 54,674 | 209 | 462 | 55,346 | | Total equity attributable to owners of parent |
| Non-controlling interests | 554 | — | (241) | 313 | | Non-controlling interests |
| Total net assets | 55,228 | 209 | 221 | 55,659 | | Total equity |
| Total liabilities and net assets | 415,292 | — | 3,056 | 418,349 | | Total liabilities and equity |

Notes on reconciliations of equity

Reclassification of line items

Principal information on reclassification is as follows.

(a) Transfer of cash and cash equivalents

“Securities,” which were included in current assets under Japanese GAAP, are short-term investments with maturities not exceeding three months at the time of purchase that are readily convertible and are subject to an insignificant risk of changes in value. Accordingly, these items are shown as “Cash and cash equivalents” under IFRS.

(b) Transfer of trade and other receivables

“Trade accounts receivable” and “Other receivable,” which were separately presented under current assets under Japanese GAAP, are shown as “Trade and other receivables” under IFRS.

(c) Transfer of allowance for doubtful accounts

Under IFRS, “Allowance for doubtful accounts,” which was separately presented under current assets under Japanese GAAP, is directly deducted from “Trade and other receivables” and shown as the net amount.

(d) Transfer of player transfer fees

Player transfer payments, which were included in “Prepaid expenses” under current assets and “Other assets” under investments and other assets under Japanese GAAP, are reclassified as “Intangible assets” under IFRS.

(e) Transfer of other assets

“Prepaid expenses,” which were separately presented under Japanese GAAP, are reclassified as “Other current assets” under IFRS.

(f) Reclassification of right-of-use assets and lease liabilities

“Lease assets,” which were included in “Property and equipment” under non-current assets under Japanese GAAP, were reclassified as “Right-of-use assets” under IFRS, and “Lease liabilities,” which were included in “Other current liabilities” under current liabilities and “Other non-current liabilities” under non-current liabilities under Japanese GAAP, are separately presented as “Lease liabilities” under current liabilities and non-current liabilities under IFRS.

(g) Reclassification of other financial assets and other financial liabilities

“Derivative assets,” which were included in “Other” under current assets in Japanese GAAP, were reclassified as “Other financial assets” under IFRS, and “Investment securities” and “Lease deposits,” which were separately presented under non-current assets under Japanese GAAP, were reclassified as “Other financial assets” under IFRS.

In addition, “Derivative liabilities,” which were included in “Other” under current liabilities in Japanese GAAP, were reclassified as “Other financial liabilities” under IFRS, and “Provision for point certificates,” which was separately presented under current liabilities under Japanese GAAP, was reclassified as “Other financial liabilities” under IFRS.

(h) Transfer of trade and other payables

“Accounts payable” and “Accrued expenses,” which were separately presented under current liabilities under Japanese GAAP, are shown as “Trade and other payables” under IFRS.

English Translation

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(i) Reclassification of bonds and borrowings

“Short-term borrowings” and “Current portion of long-term borrowings,” which were separately presented under current liabilities under Japanese GAAP, were reclassified as “Borrowings” under IFRS, and “Convertible-bond-type bonds with stock acquisition rights” and “Long-term borrowings,” which were separately presented under non-current liabilities under Japanese GAAP, were reclassified as “Bonds and borrowings” under non-current liabilities under IFRS.

(j) Transfer of provisions

“Asset retirement obligations,” which were separately presented in non-current liabilities under Japanese GAAP, were reclassified as “Provisions” under non-current liabilities under IFRS.

(k) Reclassification of other liabilities

“Provision for bonuses” which were separately presented under current liabilities under Japanese GAAP, were reclassified as “Other current liabilities” under IFRS, and “Retirement benefit liability,” which was separately presented under non-current liabilities under Japanese GAAP, was reclassified as “Other non-current liabilities” under IFRS.

(l) Reclassification of capital surplus

“Provision for share-based compensation,” which was separately presented as a current liability under Japanese GAAP, was reclassified as “Capital surplus” under IFRS.

(m) Reclassification of other components of equity

“Valuation difference on available-for-sale securities,” “Foreign currency translation adjustments,” “Deferred gains or losses on hedges,” and “Stock acquisition rights,” which were separately presented under Japanese GAAP, are shown as “Other components of equity” under IFRS.

Differences in recognition and measurement

1) Contract acquisition costs

Incremental costs to obtain contracts with customers were processed collectively under Japanese GAAP, but the portion expected to be recoverable is recognized as assets under IFRS.

2) Right-of-use assets and lease liabilities

Operating lease transactions were accounted for according to the method for normal lease transactions under Japanese GAAP. However, under IFRS, “Right-of-use assets” and “Lease liabilities” are recognized, and depreciation and interest expense are recorded.

3) Recording of impairment losses

Under Japanese GAAP, if there is any indication of impairment, the carrying amount of an individual asset or cash generating unit is compared with the total amount of undiscounted future cash flows, and, only when the undiscounted future cash flows are lower than the carrying amount, an impairment loss is recognized up to the recoverable value based on the total amount of discounted future cash flows.

Under IFRS, if there is any indication of impairment, the carrying amount of an individual asset or cash generating unit is compared with the recoverable value based on the total amount of discounted future cash flows, and when the recoverable value is lower than the carrying amount, an impairment loss is recognized up to that recoverable value.

As a result of implementing impairment test of the sports business and intangible assets with an indefinite useful life based on the business plan at the date of transition to IFRS, in the “Other” segment, the Group recognized impairment losses of ¥1,185 million (“Property, plant and equipment” of ¥681 million (buildings and structures of ¥670 million and other of ¥10 million) and “Intangible assets” of ¥504 million).

Additionally, the recoverable amount is measured at value in use, which is calculated by discounting the estimated amount of cash flows approved by management to the present value at 9.1% by reference to weighted average cost of capital of the cash generating unit. Cash flows in the business plan period are estimated based on the growth rate, etc. predicted from entrance fee income and sales of merchandise.

4) Investment securities

Although under Japanese GAAP, shares not listed were calculated based on acquisition cost, and impairment was recorded according to deterioration of the issuing company’s financial position as necessary, the Group has elected to measure such shares at fair value through other comprehensive income under IFRS.

5) Deferred tax assets

The Group reconciled the amounts of “Deferred tax assets” and “Deferred tax liabilities” due to the temporary differences resulting from the reconciliations from Japanese GAAP to IFRS and review of recoverability of all deferred tax assets upon the adoption of IFRS.

6) Compensated absences payable

For unused compensated absences, which were not required to be accounted for under Japanese GAAP, “Other current liabilities” is recorded under IFRS.

7) Bonds payable

Convertible-bond-type bonds with stock acquisition rights under Japanese GAAP were treated using the lump-sum method without separately classifying the portion of the value corresponding to bonds and the portion of the value corresponding to share acquisition rights. However, under IFRS, these items are treated as compound financial instruments and separately presented as liability components and equity components.

8) Cryptoassets deposited by users

Under Japanese GAAP, cryptoassets deposited by users were included in “Other” under current assets and “Other” under current liabilities, but under IFRS, these cryptoassets are not recognized as assets, and the corresponding liabilities are not recognized in the consolidated statement of financial position.

9) Transfer of cumulative exchange differences on translation of overseas subsidiaries

Upon the first-time adoption, the Group elected the exemption set forth in IFRS 1 and transferred all the cumulative exchange differences at the transition date to retained earnings.

English Translation

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10) Unification of a reporting period

For certain consolidated subsidiaries whose fiscal year-end is different from that of the Company, their reporting period was unified at the transition date to conform to the Company's fiscal year-end.

11) Share-based compensation

Under Japanese GAAP, stock options subject to graded vesting are measured collectively, whereas under IFRS those stock options are measured separately for each vesting period.

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

12) Reconciliations of retained earnings

(Millions of yen)

| | As of transition date (July 1, 2022) | As of December 31, 2022 | As of June 30, 2023 |
|---|--|----------------------------|------------------------|
| Leases | 170 | 116 | 88 |
| Impairment losses | (1,185) | (1,185) | (1,185) |
| Contract acquisition costs | 691 | 889 | 1,105 |
| Share-based compensation | (1,927) | (2,495) | (2,555) |
| Compensated absences payable | (1,340) | (1,344) | (1,524) |
| Transfer of cumulative exchange differences on translation of overseas subsidiaries | 1,303 | 1,303 | 1,303 |
| Unification of a reporting period | (193) | (277) | (81) |
| Other | 22 | 10 | 64 |
| Subtotal | (2,458) | (2,983) | (2,785) |
| Reconciliation due to tax effects | 334 | 494 | 452 |
| Reconciliation of non-controlling interests | 330 | 320 | 241 |
| Total reconciliations of retained earnings | (1,792) | (2,167) | (2,090) |

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

Reconciliations of profit or loss and comprehensive income (first six months of the previous fiscal year from July 1, 2022, to December 31, 2022)

Items of Condensed Quarterly Consolidated Statement of Profit or Loss

(Millions of yen)

| Line items under Japanese GAAP | Japanese GAAP | Reclassification | Differences in recognition and measurement | IFRS | Note | Line items under IFRS |
|--|---------------|------------------|--|--------|--------------------|--|
| Net sales | 84,285 | — | (342) | 83,942 | 1) | Revenue |
| Cost of sales | 29,905 | — | (234) | 29,671 | 3) 4) 5) | Cost of sales |
| Gross profit | 54,379 | — | (107) | 54,271 | | Gross profit |
| Selling, general and administrative expenses | 48,546 | (124) | 287 | 48,709 | (b) 2) 3) 4) 5) | Selling, general and administrative expenses |
| | — | 184 | 3 | 187 | (a) 1) | Other income |
| | — | 909 | (31) | 878 | (a) 7) | Other expenses |
| Operating profit | 5,832 | (601) | (360) | 4,871 | | Operating profit |
| Non-operating income | 357 | (357) | — | — | | |
| Non-operating expenses | 223 | (223) | — | — | | |
| Extraordinary income | 2 | (2) | — | — | | |
| Extraordinary losses | 749 | (749) | — | — | | |
| | — | 176 | — | 176 | (a) | Finance income |
| | — | 62 | 156 | 219 | (a) 3) 6) | Finance costs |
| Net profit before income taxes | 5,221 | 124 | (517) | 4,828 | | Profit before tax |
| Income taxes | 4,156 | 124 | (493) | 3,787 | (b) 8) | Income tax expense |
| Net profit | 1,064 | — | (23) | 1,040 | | Profit |

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

Items of Condensed Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

| Line items under Japanese GAAP | Japanese GAAP | Reclassification | Differences in recognition and measurement | IFRS | Note | Line items under IFRS |
|---|---------------|------------------|--|-------|------|--|
| Net profit | 1,064 | — | (23) | 1,040 | | Profit |
| Other comprehensive income | | | | | | Other comprehensive income |
| | | | | | | Items that will not be reclassified to profit or loss |
| | | | | | | Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income |
| Valuation difference on available-for-sale securities | (1) | — | 0 | (1) | 7) | Items that may be reclassified to profit or loss |
| | | | | | | Exchange differences on translation of foreign operations |
| Foreign currency translation adjustments | 51 | — | 51 | 102 | | Effective portion of change in fair value of cash flow hedges |
| Deferred gains or losses on hedges | (131) | — | — | (131) | | Other comprehensive income (after considering tax effects) |
| Total other comprehensive income | (81) | — | 51 | (30) | | Comprehensive income |
| Comprehensive income | 982 | — | 27 | 1,010 | | |

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

Reconciliations of profit or loss and comprehensive income (second quarter of the previous fiscal year from October 1, 2022, to December 31, 2022)

Items of Condensed Quarterly Consolidated Statement of Profit or Loss

(Millions of yen)

| Line items under Japanese GAAP | Japanese GAAP | Reclassification | Differences in recognition and measurement | IFRS | Note | Line items under IFRS |
|--|---------------|------------------|--|--------|--------------------|--|
| Net sales | 44,256 | — | (114) | 44,141 | 1) | Revenue |
| Cost of sales | 15,462 | — | (357) | 15,104 | 3) 4) 5) | Cost of sales |
| Gross profit | 28,793 | — | 243 | 29,036 | | Gross profit |
| Selling, general and administrative expenses | 26,079 | (58) | 52 | 26,074 | (b) 2) 3) 4) 5) | Selling, general and administrative expenses |
| | — | 154 | (99) | 55 | (a) 1) | Other income |
| | — | 693 | 30 | 724 | (a) 7) | Other expenses |
| Operating profit | 2,713 | (481) | 61 | 2,293 | | Operating profit |
| Non-operating income | 268 | (268) | — | — | | |
| Non-operating expenses | 168 | (168) | — | — | | |
| Extraordinary income | — | — | — | — | | |
| Extraordinary losses | 557 | (557) | — | — | | |
| | — | 113 | — | 113 | (a) | Finance income |
| | — | 31 | 78 | 110 | (a) 3) 6) | Finance costs |
| Net profit before income taxes | 2,256 | 58 | (17) | 2,296 | | Profit before tax |
| Income taxes | 1,557 | 58 | 195 | 1,811 | (b) 8) | Income tax expense |
| Net profit | 698 | — | (213) | 485 | | Profit |

English Translation

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Items of Condensed Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

| Line items under Japanese GAAP | Japanese GAAP | Reclassification | Differences in recognition and measurement | IFRS | Note | Line items under IFRS |
|---|---------------|------------------|--|-------|------|--|
| Net profit | 698 | — | (213) | 485 | | Profit |
| Other comprehensive income | | | | | | Other comprehensive income |
| | | | | | | Items that will not be reclassified to profit or loss |
| | | | | | | Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income |
| Valuation difference on available-for-sale securities | (0) | — | 20 | 19 | 7) | Items that may be reclassified to profit or loss |
| | | | | | | Exchange differences on translation of foreign operations |
| Foreign currency translation adjustments | (419) | — | 108 | (311) | | Effective portion of change in fair value of cash flow hedges |
| Deferred gains or losses on hedges | (335) | — | — | (335) | | Other comprehensive income (after considering tax effects) |
| Total other comprehensive income | (756) | — | 129 | (626) | | Comprehensive income |
| Comprehensive income | (57) | — | (83) | (140) | | |

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

Reconciliations of profit or loss and comprehensive income (previous fiscal year from July 1, 2022, to June 30, 2023)

Items of Consolidated Statement of Profit or Loss

(Millions of yen)

| Line items under Japanese GAAP | Japanese GAAP | Reclassification | Differences in recognition and measurement | IFRS | Note | Line items under IFRS |
|--|---------------|------------------|--|---------|--------------------|--|
| Net sales | 172,064 | — | (96) | 171,967 | 1) | Revenue |
| Cost of sales | 57,639 | — | 371 | 58,010 | 3) 4) 5) | Cost of sales |
| Gross profit | 114,425 | — | (468) | 113,956 | | Gross profit |
| Selling, general and administrative expenses | 97,401 | (319) | 165 | 97,247 | (b) 2) 3) 4) 5) | Selling, general and administrative expenses |
| | — | 218 | 250 | 468 | (a) 1) | Other income |
| | — | 1,171 | (379) | 791 | (a) 7) | Other expenses |
| Operating profit | 17,023 | (633) | (3) | 16,385 | | Operating profit |
| Non-operating income | 716 | (716) | — | — | | |
| Non-operating expenses | 290 | (290) | — | — | | |
| Extraordinary income | 2 | (2) | — | — | | |
| Extraordinary losses | 1,063 | (1,063) | — | — | | |
| | — | 501 | — | 501 | (a) | Finance income |
| | — | 182 | 311 | 493 | (a) 3) 6) | Finance costs |
| Net profit before income taxes | 16,389 | 319 | (315) | 16,393 | | Profit before tax |
| Income taxes | 7,944 | (4,150) | (446) | 3,346 | (b) 8) | Income tax expense |
| Income taxes - deferred | (4,470) | 4,470 | | | (b) | |
| Net profit | 12,914 | — | 131 | 13,046 | | Profit |

English Translation

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Items of Consolidated Statement of Comprehensive Income

(Millions of yen)

| Line items under Japanese GAAP | Japanese GAAP | Reclassification | Differences in recognition and measurement | IFRS | Note | Line items under IFRS |
|---|---------------|------------------|--|--------|------|--|
| Net profit | 12,914 | — | 131 | 13,046 | | Profit |
| Other comprehensive income | | | | | | Other comprehensive income |
| | | | | | | Items that will not be reclassified to profit or loss |
| | | | | | | Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income |
| Valuation difference on available-for-sale securities | (0) | — | (272) | (272) | 7) | Items that may be reclassified to profit or loss |
| | | | | | | Exchange differences on translation of foreign operations |
| Foreign currency translation adjustments | 747 | — | (53) | 694 | | Effective portion of change in fair value of cash flow hedges |
| Deferred gains or losses on hedges | 160 | — | — | 160 | | Other comprehensive income (after considering tax effects) |
| Total other comprehensive income | 908 | — | (325) | 582 | | Comprehensive income |
| Comprehensive income | 13,823 | — | (193) | 13,629 | | |

Notes on reconciliations of profit or loss and comprehensive income

Reclassification of line items

Principal information on reclassification is as follows.

(a) Reconciliation of line items

As for items shown in “Non-operating income,” “Non-operating expenses,” “Extraordinary income,” and “Extraordinary losses” under Japanese GAAP, financial items are presented in “Finance income” or “Finance costs,” and other items in “Other income” or “Other expenses” under IFRS.

(b) Income tax expense

Inhabitant taxes on a per capita basis were included in “Income taxes” under Japanese GAAP, but they are included in “Selling, general and administrative expenses” under IFRS. In addition, the value-added portion of pro forma standard enterprise tax was included in “Selling, general and administrative expenses” under Japanese GAAP, but is included in “Income tax expense” under IFRS. Furthermore, under Japanese GAAP, “Income taxes - current” and “Income taxes - deferred” are demarcated and presented separately, but under IFRS they are bundled together and presented as “Income tax expense.”

Differences in recognition and measurement

1) Transfer fee income

With regard to received transfer fees, such fees were included in “Net sales” under Japanese GAAP, but they are included in “Other income” under IFRS.

2) Contract acquisition costs

Incremental costs to obtain contracts with customers were processed when they were incurred under Japanese GAAP, but the portion expected to be recoverable is recognized as assets under IFRS.

As a result of this change, expenses related to these costs were transferred to assets as contract acquisition costs.

3) Reconciliation of depreciation, etc. as a result of recording of right-of-use assets

Operating lease transactions were accounted for according to the method for normal lease transactions under Japanese GAAP. However, under IFRS, “Right-of-use assets” and “Lease liabilities” are recognized, and depreciation and interest expense are recorded.

4) Compensated absences payable

For unused compensated absences, which were not required to be accounted for under Japanese GAAP, “Cost of sales” and “Selling, general and administrative expenses” are recorded under IFRS.

5) Share-based compensation

Under Japanese GAAP, stock options subject to graded vesting are measured collectively, whereas under IFRS those stock options are measured separately for each vesting period. As a result of this change, stock-based compensation expenses included in “Cost of sales” and “Selling, general and administrative expenses” are adjusted.

6) Bonds payable

Convertible-bond-type bonds with stock acquisition rights under Japanese GAAP were treated using the lump-sum method without separately classifying the portion of the value corresponding to bonds and the portion of the value corresponding to share acquisition rights. However, under IFRS, these items are treated as compound financial instruments and separately presented as liability components and equity components. As a result of this change, interest expenses on bonds are included in “Financial costs.”

English Translation

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7) Measurement of financial instruments

Although under Japanese GAAP, shares not listed were calculated based on acquisition cost, and impairment was recorded according to deterioration of the issuing company's financial position, such shares are measured at fair value through other comprehensive income under IFRS. In addition, as for equity financial instruments, gain or loss on sales and impairment losses were recognized as net profit or loss under Japanese GAAP, but under IFRS, any change in fair value is recognized as other comprehensive income.

8) Reconciliation for tax effects

The Group reconciled the amount of "Income tax expense" due to the temporary differences resulting from the reconciliations from Japanese GAAP to IFRS and review of recoverability of all deferred tax assets as a result of the adoption of IFRS.

(3) Reconciliations of Cash Flows

Lease payments paid under operating leases were classified as cash flows from operating activities under Japanese GAAP, but they are classified into cash flows from financing activities as repayments of lease liabilities under IFRS.