Rakuten

The following information was originally prepared and published by the Company in Japanese as it contains timely disclosure materials to be submitted to the Tokyo Stock Exchange. This English summary translation is for your convenience only. To the extent there is any discrepancy between this English translation and the original Japanese version, please refer to the Japanese version. The following financial information was prepared in accordance with International Financial Reporting Standards ("IFRS").

Consolidated Financial Reports (IFRS)
For the Fiscal Year ended December 31, 2016

Rakuten, Inc.
February 13, 2017

Company name	Rakuten, Inc.			Listed	Tokyo Stock Exchange
Code No	4755			URL	http://www.rakuten.co.jp/
Representative	(Title)	Chairman and CEO	(Name)	Hiroshi Mikitani	
Contact person	(Title)	CFO	(Name)	Yoshihisa Yamada	

Scheduled date of the Annual General Meeting of Shareholders: March 30, 2017
Scheduled date of commencement of dividend payment: March 13, 2017
Scheduled date of filing the securities report : March 30, 2017
Supplementary materials for financial results: Yes
Financial results information meeting held: Yes (For institutional investors and analysts)

1. Consolidated Results for the Fiscal Year ended December 31, 2016 (January 1 – December 31, 2016)

(Yen amounts are rounded to the nearest million)

(1) Consolidated Operating Results

(%, YoY)

	Revenue		Operating income		Income before income tax		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended December 31, 2016	781,916	9.6	77,977	(17.6)	73,923	(19.6)	38,001	(14.2)
Fiscal year ended December 31, 2015	713,555	19.2	94,689	(11.0)	91,987	(11.8)	44,280	(37.7)

	Net income attributable to owners of the parent company		Comprehensive income		Basic Earnings per Share attributable to owners of the parent company	Diluted Earnings per Share attributable to owners of the parent company
	Millions of yen	%	Millions of yen	%	Yen	Yen
Fiscal year ended December 31, 2016	37,995	(14.5)	22,030	(56.9)	26.65	26.44
Fiscal year ended December 31, 2015	44,436	(37.1)	51,116	(58.7)	32.33	32.09

	ROE (Return on equity attributable to owners of the parent company)	ROA (Ratio of income before income tax to total assets)	OP margin (Ratio of operating income to revenue)
	%	%	%
Fiscal year ended December 31, 2016	5.7	1.7	10.0
Fiscal year ended December 31, 2015	8.2	2.3	13.3

(Notes)

Share of income (loss) of associates and joint ventures: (809) million yen (Fiscal year ended December 31, 2016)
986 million yen (Fiscal year ended December 31, 2015)

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to owners of the parent company	Ratio of total equity attributable to owners of the parent company to total assets	Total equity attributable to owners of the parent company per Share
	Millions of yen	Millions of yen	Millions of yen	%	Yen
As of December 31, 2016	4,604,672	680,346	680,247	14.8	476.89
As of December 31, 2015	4,269,953	664,013	662,044	15.5	464.80

(3) Consolidated Cash Flows

	Net Cash Flows from Operating Activities	Net Cash Flows from Investment Activities	Net Cash Flows from Financing Activities	Cash and Cash Equivalents, End of Year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal year ended December 31, 2016	30,700	(26,841)	45,200	548,269
Fiscal year ended December 31, 2015	78,245	(224,078)	221,831	501,029

2. Dividend Distribution

	Dividend per Share					Total Dividend (Year)	Dividend Ratio (Consolidated)	Ratio of Dividend to total equity attributable to owners of the parent company (Consolidated)
	1Q	2Q	3Q	4Q	Year			
	Yen	Yen	Yen	Yen	Yen	Millions of Yen	%	%
FY2015	—	0.00	—	4.50	4.50	6,410	13.9	1.1
FY2016	—	0.00	—	4.50	4.50	6,419	16.9	1.0
FY2017 (Forecast)	—	—	—	—	—		—	

Note: Dividend per share for the fiscal year ending December 31, 2017 has not been decided yet.

3. Estimate of Consolidated Operating Results for Fiscal 2017 (January 1 to December 31, 2017)

For the estimate of consolidated operating results for Fiscal 2017, double-digit growth from Fiscal 2016 is targeted for consolidated revenue excluding the securities business whose results are heavily impacted by stock market conditions.

For details, see page P. 7 1. Analysis Concerning Business Results and Financial Position (1) Analysis Concerning Business Results (v) Outlook for the Coming Year.

Rakuten

Notes

(1) Changes in significant subsidiaries during the current period
(Changes in specified subsidiaries resulting in change in scope of consolidation): No

New ― (Company name ―) Excluded ― (Company name ―)

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

1. Changes in accounting policies as required under IFRS: No
2. Changes in accounting policies due to other reasons: No
3. Changes in accounting estimates: No

(3) Number of shares issued (Common stock)

1. Total number of shares issued at the end of the year (including treasury stocks)
   1,432,422,600 shares (As of December 31, 2016)
   1,430,373,900 shares (As of December 31, 2015)
2. Number of treasury stocks at the end of the year
   6,008,888 shares (As of December 31, 2016)
   6,008,788 shares (As of December 31, 2015)
3. Average number of shares during the year (cumulative from the beginning of the year)
   1,425,487,228 shares (January 1 – December 31, 2016)
   1,374,535,931 shares (January 1 – December 31, 2015)

Indication regarding execution of audit procedures

This financial report is not intended for audit based on the Financial Instruments and Exchange Act. At the time of disclosure of this financial results report, the audit procedures for consolidated financial statements in accordance with the Financial Instruments and Exchange Act are not completed.

Explanation about the appropriate use of earnings forecasts, and other special matters

Consolidated forecasts for the year ending December 31, 2017 are based on information that is available at the time of writing, but a number of known and unknown factors could cause actual results to differ from the projections.

1. Analysis Concerning Business Results and Financial Position

(1) Analysis Concerning Business Results

The Rakuten Group is disclosing consolidated business results in terms of both its internal measures which management relies upon in making decisions (hereinafter the “Non-GAAP financial measures”) and those under IFRS.

Non-GAAP operating income is operating income under IFRS (hereinafter “IFRS operating income”) after deducting unusual items and other adjustments prescribed by the Rakuten Group. The management believes that the disclosure of Non-GAAP financial measures facilitates comparison between the Rakuten Group and peer companies in the same industry or comparison of its business results with those of the prior fiscal years by stakeholders, and can provide useful information in understanding the underlying business results of the Rakuten Group and its future outlook. Unusual items refer to one-off items that Rakuten believes shall be excluded for the purpose of preparing future outlook based on certain rules. Other adjustment items are those that tend to differ depending on the standards applied, and are therefore less comparable between companies, such as stock-based compensation expense and amortization of acquisition-related intangible assets.

Note: For disclosure of Non-GAAP financial measures, the Rakuten Group refers to the rules specified by the U.S. Securities and Exchange Commission but does not fully comply with such rule.

i) Business Results for the Fiscal Year ended December 31, 2016 (Non-GAAP basis)

The world economy during the fiscal year ended December 31, 2016, continued to stay on a gradual recovery track, although attention must be paid to factors including the normalization of U.S. monetary policy. The Japanese economy also saw a gradual recovery trend amid continuing improvement in the wage and employment environment.

Under such an environment, the Rakuten Group has implemented strategic actions in line with its medium-term strategy “Vision 2020" announced in February 2016. In domestic e-commerce services, the mainstay of Internet Services, the Rakuten Group is making every effort towards further revenue growth by implementing various measures. These include programs with the aim of improving customer satisfaction, aggressive sales activities and strategies to enhance services for smart devices (smartphones and tablet devices) and to open up the Rakuten Ecosystem. Results are on track for improvement in overseas internet services, due to contributions from the steady growth in U.S. subsidiary Ebates Inc. (“Ebates”) and other factors. In the FinTech segment, further expansion of the membership base for the Rakuten Card brought in more commission income, while there was also solid growth in banking services. These contributed to a solid increase in both revenue and profit, even as the securities services suffered from a slump in the stock market.

As a result, the Rakuten Group achieved revenue of ¥781,916 million, up 9.6% year-on-year, for the fiscal year ended December 31, 2016. However, mainly affected by increased expenses due to aggressive sales activities, the absence of unrealized gains on stocks recorded during the previous year, and a slump in the stock market, Non-GAAP operating income fell by 21.7% year-on-year to ¥119,080 million.

(Non-GAAP)

(Millions of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Amount Change YoY	% Change YoY
Revenue	713,555	781,916	68,361	9.6%
Non-GAAP Operating Income	152,153	119,080	(33,073)	(21.7%)

ii) Reconciliation of Non-GAAP Operating Income to IFRS Operating Income

For the fiscal year ended December 31, 2016, amortization of intangible assets of ¥7,789 million and stock-based compensation expense of ¥7,344 million were excluded from Non-GAAP operating income. Impairment of goodwill, intangible assets and others of ¥25,970 million was recognized as a one-off item. One-off items of ¥43,054 million in the previous fiscal year include the impairment of goodwill and intangible assets and others.

(Millions of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Amount Change YoY
Non-GAAP operating income	152,153	119,080	(33,073)
Amortization of intangible assets (PPA)	(8,322)	(7,789)	533
Stock based compensation	(6,088)	(7,344)	(1,256)
One-off items	(43,054)	(25,970)	17,084
Operating Income	94,689	77,977	(16,712)

iii) Business Results for the Fiscal Year ended December 31, 2016 (IFRS basis)

The Rakuten Group recorded revenue of ¥781,916 million, up 9.6% year-on-year, operating income of ¥77,977 million, down 17.6% year-on-year, and net income attributable to owners of the parent company of ¥37,995 million, down 14.5% year-on-year, for the fiscal year ended December 31, 2016.

(IFRS)

(Millions of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Amount Change YoY	% Change YoY
Revenue	713,555	781,916	68,361	9.6%
Operating Income	94,689	77,977	(16,712)	(17.6%)
Net Income attributable to owners of the parent company	44,436	37,995	(6,441)	(14.5%)

iv) Segment Information

Business results for each segment are as follows. In terms of the IFRS management approach, segment profit or loss is presented on a Non-GAAP operating income basis. From the three months ended September 30, 2016, the Rakuten Group reviewed its internal reporting control framework following the introduction of an internal Company System. Accordingly, businesses that had previously comprised the “Others” segment were integrated into the businesses that comprise the “Internet Services” segment. As a result, the previous three reporting segments were changed to two reporting segments: “Internet Services” and “FinTech.”

Segment information for the previous fiscal year has been prepared based on the classification method after the change. For details, please refer to “5. Consolidated Financial Statements (Summary) (6) Notes to the summary of consolidated financial statements (Segment Information) (1) General Information.”

Internet Services

In the Internet Services segment for the fiscal year ended December 31, 2016, the Rakuten Group actively worked on various initiatives. It has conducted aggressive sales activities with the aim of winning new users and developing a long-term, loyal customer base, initiatives targeting greater customer satisfaction, strengthening services for smart devices and opening up the Rakuten Ecosystem. Results are on track for improvement in overseas internet services, thanks in part to the steady growth of Ebates. Rakuten Mobile, which provides MVNO (Mobile Virtual Network Operator) services, substantially increased revenue thanks to its full-scale aggressive sales activities commenced during the three months ended June 30, 2015.

As a result, revenue for the Internet Services segment rose to ¥560,555 million, a 13.7% year-on-year increase. However, mainly affected by increased expenses due to aggressive sales activities and the absence of unrealized gains on stocks recorded during the previous year, segment profit stood at ¥55,568 million, a 38.9% year-on-year decrease.

(Millions of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Amount Change YoY	% Change YoY
Segment Revenue	492,836	560,555	67,719	13.7%
Segment Profit	90,909	55,568	(35,341)	(38.9%)

FinTech

In the FinTech segment for the fiscal year ended December 31, 2016, shopping transaction value and revolving balances in credit card related services increased due to growth in Rakuten Card membership, resulting in a steady rise in revenue and profits. In banking services, profits continued to grow despite the backdrop of a negative interest rate policy due to an increase in interest income from loans, with expanding loan balances and improvements in cost efficiency. In securities services, the negative impact of volatile market conditions markedly weighed down its revenue and profits from their levels in the previous fiscal year.

As a result, the FinTech segment recorded ¥296,066 million in revenue, a 7.6% year-on-year increase, while segment profit stood at ¥65,587 million, a 2.6% increase year-on-year.

(Millions of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Amount Change YoY	% Change YoY
Segment Revenue	275,136	296,066	20,930	7.6%
Segment Profit	63,899	65,587	1,688	2.6%

v) Outlook for the Coming Year

For the forecast of consolidated operating results for Fiscal 2017 (next fiscal year), the Rakuten Group aims for double-digit growth from Fiscal 2016 for consolidated revenue, excluding amounts from the securities services whose results are impacted substantially by stock market conditions.

The outlook for each segment is as follows.

Internet Services

The Group’s domestic e-commerce services will aim for further growth in gross transaction value and revenue through implementation of aggressive sales activities with the aim of winning new users and developing a long-term loyal customer base, and by continuously pursuing initiatives targeting greater customer satisfaction, in addition to the global expansion of the e-commerce market. Overseas internet services will aim for growth in revenue driven by a further increase in gross transaction value.

We will strive to boost revenue from MVNO service “Rakuten Mobile” by continuously carrying out initiatives focused on increasing the number of its users.

FinTech

In credit card related services, we will strive to achieve further growth of shopping transaction value by strengthening the marketing initiatives aimed at expansion of market share and promotion of group synergy on an ongoing basis. To this end however, costs associated with updating the core system are expected to be incurred. In banking services, a solid expansion of operations is expected. Meanwhile, it is difficult to make a forecast for securities services due to the substantial impact of stock market conditions.

(2) Analysis Concerning Financial Position
i) Assets, Liabilities, and Net Assets
Assets

Total assets at December 31, 2016 amounted to ¥4,604,672 million, an increase of ¥334,719 million from ¥4,269,953 million at the end of the previous fiscal year. The primary factors were a decrease of ¥100,454 million in investment securities for banking business, which was offset by increases of ¥180,888 million in loans for credit card business, and ¥141,756 million in loans for banking business.

Liabilities

Total liabilities at December 31, 2016 amounted to ¥3,924,326 million, an increase of ¥318,386 million from ¥3,605,940 million at the end of the previous fiscal year. The primary factors were increases of ¥139,162 million in deposits for banking business, ¥72,395 million in financial liabilities for securities business, and ¥61,909 million in bonds and borrowings.

Equity

Equity at December 31, 2016 was ¥680,346 million, an increase of ¥16,333 million from ¥664,013 million at the end of the previous fiscal year. The primary factors were a decrease of ¥19,599 million in other components of equity resulting from fluctuations in the foreign exchange rates, which was offset by an increase of ¥33,720 million in retained earnings resulting from the recognition of ¥37,995 million of net income attributable to owners of the parent company.

ii) Cash Flows

Cash and cash equivalents at December 31, 2016 was ¥548,269 million, an increase of ¥47,240 million from the end of the previous fiscal year. Among these, deposits with the Bank of Japan for banking business was ¥376,879 million, an increase of ¥28,805 million from the end of the previous fiscal year. Cash flow conditions and their major factors for the fiscal year ended December 31, 2016 are as follows.

Net cash flows from operating activities

Net cash flows from operating activities for the fiscal year ended December 31, 2016 resulted in a cash inflow of ¥30,700 million (compared with a cash inflow of ¥78,245 million for the previous fiscal year). Primary factors included a cash outflow of ¥180,741 million for an increase in loans for credit card business and a cash outflow of ¥141,756 million in loans for banking business, which were offset by a cash inflow of ¥139,162 million from an increase in deposits for banking business, net proceeds of ¥59,983 million from fluctuations of financial assets and liabilities for securities business (a cash outflow of ¥11,725 million for increase in financial assets and a cash inflow of ¥71,708 million for increase in financial liabilities), and the recognition of ¥73,923 million for income before income tax and ¥44,257 million in depreciation and amortization.

Net cash flows from investing activities

Net cash flows from investing activities for the fiscal year ended December 31, 2016 resulted in a cash outflow of ¥26,841 million (compared with a cash outflow of ¥224,078 million for the previous fiscal year). Primary factors included net proceeds of ¥98,790 million for purchase and sales of investment securities for banking business (a cash outflow of ¥249,291 million for purchase of investment securities for banking business and a cash inflow of ¥348,081 million from sales and redemption of investment securities), which was offset by a cash outflow of ¥42,325 million for purchase of intangible assets, a cash outflow of ¥33,612 million for acquisition of subsidiaries, and net cash outflows of ¥32,361 million for purchase and sales of investment securities (a cash outflow of ¥53,213 million purchase of investment securities and a cash inflow of ¥20,852 million from sales and redemption of investment securities).

Net cash flows from financing activities

Net cash flows from financing activities for the fiscal year ended December 31, 2016 resulted in a cash inflow of ¥45,200 million (compared with a cash inflow of ¥221,831 million for the previous fiscal year). Primary factors included a cash outflow of ¥163,832 million for repayment of long-term debt, which was offset by a cash inflow of ¥212,100 million from long-term debt.

(Reference) Cash Flows Index

	FY2015	FY2016
Ratio of total equity attributable to owners of the parent company to total assets (%)	15.5	14.8
Ratio of total equity attributable to owners of the parent company to market capitalization (%)	46.8	35.5
Ratio of cash flows to interest- bearing liabilities (X)	8.3	23.2
Interest coverage ratio (X)	32.5	12.3

(Notes)
1. Ratio of total equity attributable to owners of the parent company to total assets: total equity attributable to owners of the parent company/total assets
2. Ratio of total equity attributable to owners of the parent company to market capitalization: aggregate market value of shares/total assets
3. Ratio of cash flows to interest-bearing liabilities: interest-bearing liabilities/cash flows
4. Interest coverage ratio: cash flows/interest payments

(1) All ratios were calculated using consolidated financial figures.
(2) Market capitalization is calculated as the market value of shares at the end of the year multiplied by the total number of shares issued and outstanding at the end of the year.
(3) "Cash flow" stands for cash flows from operating activities.

(3) Policy Concerning Decisions on Profit Distributions and Dividend Forecast

As for the policy for shareholder return, the Company has been increasing or maintaining our dividend per share at a constant level, while taking into account the importance of making investments for medium-to long-term growth and ensuring sufficient internal reserves for the purpose of stabilizing our financial base. With respect to the required level of shareholders' equity, the Company's basic philosophy is as follows.

- Prepare a financial basis sound enough for the Company to capture growing business opportunities promptly and accurately
- Ensure sufficiency in comparison with risks associated with business activities and assets
- Maintain the level of financial rating required for conducting financial business, while sustaining the level of shareholders equity in compliance with regulatory requirements

For the current fiscal year, the Company decided to pay dividend of ¥4.5 per share (¥4.5 per share for the previous fiscal year) at the Meeting of the Board of Directors held on February 13, 2017, in accordance with the aforementioned basic policy.

(Reference) Trends in dividend per share (after adjustment for the share split)

	Fiscal year ended December 31, 2012	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2014	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Dividend per share (yen)	3.00	4.00	4.50	4.50	4.50

Purchase of treasury stock is being considered as an option of financial measures for the purpose of flexibly addressing the changes in the business environment and contributing to the enhancement of shareholder value.

(Reason for difficulty in making a dividend forecast)

The company's policy to maintain stable dividends runs alongside our desire to retain sufficient income to build the reserves needed to develop our operations and maintain a sound financial structure. Allowing for flexible judgment in the fiscal year ending December 31, 2017, a dividend forecast is not provided.

2. Management Policies

(1) Basic Management Policy

Our basic business philosophy calls for the empowerment of individuals and society through innovations. We contribute to social enrichment by creating growth opportunities for as many people as possible through the provision of services that ensure a high standard of satisfaction for both users and partners. Through these activities, we aim to maximize corporate value and shareholders' value of the Rakuten Group, and to become a global innovation company.

(2) Targets for Financial Indicators

The key performance indicators (KPIs) used by the Rakuten Group include the group and business unit (BU) revenue, Non-GAAP operating profit, gross transaction value (the value of transactions in goods and services), and the number of Rakuten Group members and others. The Rakuten Group aims to achieve the group-wide target of a Non-GAAP operating profit of ¥300.0 billion by 2020.

(3) Medium- to Long-Term Management Strategies

The basic management strategy of the Rakuten Group is to construct the “Rakuten Eco-System,” which is a business model providing a wide range of services to users, particularly Rakuten group members, within Japan and overseas. With this Rakuten Eco-System, we have created an environment in which members worldwide can continuously surf between multiple services, including e-commerce transactions, financial services (FinTech) and digital contents, etc. Our goal is to achieve synergistic benefits that include the maximization of the lifetime value of each member and minimization of customer acquisition cost. In order to realize this, we will take actions and measures proactively, including improving customer satisfaction for our existing lineup of services, proceeding with effective marketing programs for building stronger user loyalty by leveraging “Rakuten Super Points” and big data, enhancing services available for smart devices (smartphones and tablet devices), implementing a strategy to make the Rakuten Eco-System open, and so forth.

We will consistently embark on innovative ideas not bounded by conventional concepts through investing in new fields of business such as a brand-new open type e-commerce transaction platform, Addtec, delivery services using drones, and “chatbot” which incorporates AI (artificial intelligence) and deep learning, etc., with an eye on the global market.

Additionally, we will take the lead in strengthening corporate governance by strictly adhering to compliance requirements and enhancing information security management, while contributing to build a community where each person can actively participate by raising awareness in respecting diversity.

Through these initiatives, Rakuten aims to energize communities in Japan and other countries where it is active, contribute to the development of the Japanese and global economies, increase the value of the Rakuten Group brand on a global level, and earn the trust of our stakeholders.

(4) Challenges

As a global innovation company, our challenges are to respond flexibly to changes in our business environment, and build a framework for continuous growth. Additionally, through long-term continuous growth, we aim to maximize the corporate and shareholders' value of the Rakuten Group and be a company group that empowers individuals and society through innovation.

i) Management structure

The Rakuten Group positions thorough corporate governance as our top challenge, and we are developing a number of initiatives to ensure good corporate governance.

The Company has supervised management through a Board of Company Auditors comprised exclusively of Outside Company Auditors. Additionally, in order to separate the supervisory and executive roles of management, the Company has adopted an Executive Officer System by which the Board has retained the responsibility for management decision-making and supervision, while Executive Officers have been made responsible for the executive functions.

The Company's Board of Directors, which includes the Outside Directors and Outside Company

Auditors who are highly independent experts of a variety of fields, supervises the execution of duties from an objective perspective and enhances the effectiveness of corporate governance by engaging in frank and multilateral discussions on management.

Since April 2016, we have been holding intensive quarterly meetings, consisting primarily of members of the Board of Directors, where we discuss Rakuten Group management strategy and other matters, separately from the Board of Directors meetings. These meetings promote discussions with a medium to long-term perspective that is not dominated by near-term challenges or the Board of Directors agenda items. We have also introduced an internal Company system to ensure agile business execution and clear accountability. In August 2016, we completely revised the Board of Directors deliberation agenda and valuation standards.

In addition, Rakuten Shugi (Rakuten principles) defines the corporate philosophy of the Rakuten Group together with its values and code of conduct. We make sure that these principles are assimilated by executives and employees in Japan and overseas as we enhance our business speed and quality.

Through such efforts, the Rakuten Group will continue to build a management structure with highly effective governance functions that enables swift management decisions.

ii) Business strategy

The Rakuten Group's basic management strategy is to build a Rakuten Eco-System, which provides services to users in Japan and globally, especially Rakuten members. With this Rakuten Eco-System, we have created an environment in which members worldwide can continuously surf between multiple services, including e-commerce transactions, digital contents, and financial services. Our goal is to achieve synergistic benefits that include the maximization of the lifetime value of each member and minimization of customer acquisition cost.

In order to achieve this, we will proactively improve customer satisfaction for our existing lineup of services, run marketing programs to improve loyalty using Rakuten Super Points and big data, enhance our services for smart devices (smartphones and tablet devices), and aggressively implement a strategy to open up the Rakuten Ecosystem.

Additionally, in order to increase the Rakuten brand on a global scale, we are set to become the Global Main Partner and Global Innovation & Entertainment Partner of the top-class Spanish soccer team FC Barcelona.

1) Internet services

In Internet Services, particularly e-commerce and travel, we will aim to create new markets together with our business partners, through various measures for improving customer satisfaction, strategies to open up the Rakuten Eco-System, and enhancing services for smart devices (smartphones and tablet devices), in addition to the utilization of big data. In telecommunications services including the messaging application developed by Viber as well as MVNO (Mobile Virtual Network Operator), we aim to expand the Rakuten Eco-System membership base while further improving user friendliness. Furthermore, we seek to provide greater value to users through digital contents services such as e-book and video streaming services.

2) FinTech

We are pursuing even greater growth of financial services in such areas as credit cards, banking and securities through group synergies. In addition, we seek to offer users new value through the further integration of finance (Fin) and Internet technology (Tech).

iii) Development of technology

We will aim to further strengthen the Rakuten Eco-System and offer innovative services by promoting research and development related to analysis and application of data sets including big data owned by the Rakuten Group, and technologies such as AI. We will also strengthen our development organization, including overseas development centers, with the aim of building a reputation for Rakuten as a company with unique, world-class technology.

3. Basic Policy on the Selection of Accounting Standards

The Group has adopted International Financial Reporting Standard (IFRS) from Fiscal 2013, for the purpose of enhancing comparability with the financial information of overseas companies in the same industry, expanding the scope of financing options, and unification of accounting treatment across the Group

4. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

(Millions of Yen)

	As of December 31, 2015	As of December 31, 2016
(Assets)		
Cash and cash equivalents	501,029	548,269
Accounts receivable – trade	104,011	117,088
Financial assets for securities business	1,109,299	1,120,684
Loans for credit card business	833,820	1,014,708
Investment securities for banking business	257,769	157,315
Loans for banking business	444,044	585,800
Investment securities for insurance business	15,308	18,071
Derivative assets	21,312	21,813
Investment securities	151,237	173,076
Other financial assets	161,640	137,678
Investments in associates and joint ventures	16,912	41,130
Property, plant and equipment	48,442	53,271
Intangible assets	514,752	506,087
Deferred tax assets	28,252	25,681
Other assets	62,126	84,001
Total assets	4,269,953	4,604,672

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(Millions of Yen)

	As of December 31, 2015	As of December 31, 2016
Liabilities		
Accounts payable – trade	162,606	181,279
Deposits for banking business	1,366,784	1,505,946
Financial liabilities for securities business	987,244	1,059,639
Derivative liabilities	10,623	6,598
Bonds and borrowings	649,195	711,104
Other financial liabilities	268,448	297,489
Income taxes payable	24,718	12,674
Provisions	54,129	65,235
Policy reserves and others for insurance business	21,635	24,462
Deferred tax liabilities	20,417	17,428
Other liabilities	40,141	42,472
Total liabilities	3,605,940	3,924,326
Equity		
Equity attributable to owners of the parent company		
Common stock	203,588	204,562
Capital surplus	208,677	211,785
Retained earnings	176,834	210,554
Treasury stock	(3,627)	(3,627)
Other components of equity	76,572	56,973
Total equity attributable to owners of the parent company	662,044	680,247
Non-controlling interests	1,969	99
Total equity	664,013	680,346
Total liabilities and equity	4,269,953	4,604,672

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income
(For the fiscal years ended December 31, 2015 and 2016)

(Millions of yen)

	Fiscal year ended December 31, 2015 (January 1 to December 31, 2015)	Fiscal year ended December 31, 2016 (January 1 to December 31, 2016)
Continuing Operations		
Revenue	713,555	781,916
Operating expenses	601,001	677,598
Other income	26,991	5,323
Other expenses	6,721	6,305
Impairment loss	38,135	25,359
Operating income	94,689	77,977
Financial income	108	256
Financial expenses	3,796	3,501
Share of income of associates and joint ventures	986	(809)
Income before income tax	91,987	73,923
Income tax expense	47,707	35,922
Net income	44,280	38,001
Net income attributable to:		
Owners of the parent company	44,436	37,995
Non-controlling interests	(156)	6
Net income	44,280	38,001

(Yen)

Earnings per share attributable to owners of the parent company		
Basic	32.33	26.65
Diluted	32.09	26.44

Rakuten

Consolidated Statement of Comprehensive Income
(For the fiscal years ended December 31, 2015 and 2016)

(Millions of yen)

	Fiscal year ended December 31, 2015 (January 1 to December 31, 2015)	Fiscal year ended December 31, 2016 (January 1 to December 31, 2016)
Net income	44,280	38,001
Other comprehensive income		
Items that will not be reclassified to net income		
Gains (losses) on financial assets measured at fair value through other comprehensive income	22,603	1,238
Income tax effect of gains and losses on financial assets measured at fair value through other comprehensive income	(4,948)	(495)
Share of other comprehensive income of associates and joint ventures	13	6
Total items that will not be reclassified to net income	17,668	749
Items that will be reclassified to net income		
Foreign currency translation adjustments	(10,713)	(16,817)
Gains (losses) on cash flow hedges recognized in other comprehensive income	(458)	(304)
Income tax effect of gains or losses on cash flow hedges recognized in other comprehensive income	133	116
Gains (losses) on cash flow hedges reclassified from other comprehensive income to net income	551	423
Income tax effect of gains or losses on cash flow hedges reclassified from other comprehensive income to net income	(190)	(137)
Share of other comprehensive income of associates and joint ventures	(155)	(1)
Total items that will be reclassified to net income	(10,832)	(16,720)
Other comprehensive income, net of tax	6,836	(15,971)
Comprehensive income	51,116	22,030
Comprehensive income attributable to:		
Owners of the parent company	51,263	22,023
Non-controlling interests	(147)	7
Comprehensive income	51,116	22,030

Rakuten

(3) Consolidated Statement of Changes in Equity

(Millions of yen)

					Other components of equity						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Foreign currency translation adjustments	Financial instruments measured at fair value through other comprehensive income	Cash flow hedges	Total other components of equity	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
As of January 1, 2015	111,602	118,528	124,796	(3,649)	51,354	19,453	(522)	70,285	421,562	6,524	428,086
Cumulative effect of a change in accounting policy	–	–	13,244	–	–	–	–	–	13,244	103	13,347
Balance after a change in accounting policy	111,602	118,528	138,040	(3,649)	51,354	19,453	(522)	70,285	434,806	6,627	441,433
Comprehensive income											
Net income			44,436						44,436	(156)	44,280
Other comprehensive income, net of tax					(10,877)	17,668	36	6,827	6,827	9	6,836
Total comprehensive income	–	–	44,436	–	(10,877)	17,668	36	6,827	51,263	(147)	51,116
Transactions with owners											
Contributions by and distributions to owners											
Issuance of common stock	91,986	91,986							183,972		183,972
Direct expenses related to issuance of common stock		(781)							(781)		(781)
Cash dividends paid			(5,952)						(5,952)		(5,952)
Reclassification from other components of equity to retained earnings			540			(540)		(540)	–		–
Others		3,900	(230)	22					3,692		3,692
Total contributions by and distributions to owners	91,986	95,105	(5,642)	22	–	(540)	–	(540)	180,931	–	180,931
Changes in ownership interests in subsidiaries											
Issuance of common stock										20	20
Acquisitions and disposals of non-controlling interests		(4,955)							(4,955)	(1,701)	(6,656)
Others		(1)							(1)	(2,830)	(2,831)
Total changes in ownership interests in subsidiaries	–	(4,956)	–	–	–	–	–	–	(4,956)	(4,511)	(9,467)
Total transactions with owners	91,986	90,149	(5,642)	22	–	(540)	–	(540)	175,975	(4,511)	171,464
As of December 31, 2015	203,588	208,677	176,834	(3,627)	40,477	36,581	(486)	76,572	662,044	1,969	664,013
Comprehensive income											
Net income			37,995						37,995	6	38,001
Other comprehensive income, net of tax					(16,819)	749	98	(15,972)	(15,972)	1	(15,971)
Total comprehensive income	–	–	37,995	–	(16,819)	749	98	(15,972)	22,023	7	22,030
Transactions with owners											
Contributions by and distributions to owners											
Issuance of common stock	974	975							1,949		1,949
Cash dividends paid			(6,410)						(6,410)		(6,410)
Reclassification from other components of equity to retained earnings			3,627			(3,627)		(3,627)	–		–
Others		4,344	(1,492)	(0)					2,852		2,852
Total contributions by and distributions to owners	974	5,319	(4,275)	(0)	–	(3,627)	–	(3,627)	(1,609)	–	(1,609)
Changes in ownership interests in subsidiaries											
Issuance of common stock										181	181
Acquisitions and disposals of non-controlling interests		(2,252)							(2,252)	(1,891)	(4,143)
Others		41							41	(167)	(126)
Total changes in ownership interests in subsidiaries	–	(2,211)	–	–	–	–	–	–	(2,211)	(1,877)	(4,088)
Total transactions with owners	974	3,108	(4,275)	(0)	–	(3,627)	–	(3,627)	(3,820)	(1,877)	(5,697)
As of December 31, 2016	204,562	211,785	210,554	(3,627)	23,658	33,703	(388)	56,973	680,247	99	680,346

(4) Consolidated Statement of Cash Flows

(Millions of Yen)

	Fiscal year ended December 31, 2015 (January 1 to December 31, 2015)	Fiscal year ended December 31, 2016 (January 1 to December 31, 2016)
Cash flows from operating activities		
Income before income tax	91,987	73,923
Depreciation and amortization	40,122	44,257
Impairment loss	38,135	25,359
Other loss (income)	(12,498)	11,133
Decrease (Increase) in operating receivables	(11,475)	(10,702)
Decrease (Increase) in loans for credit card business	(140,933)	(180,741)
Increase (Decrease) in deposits for banking business	229,626	139,162
Decrease (Increase) in call loans for banking business	5,000	23,000
Decrease (Increase) in loans for banking business	(122,167)	(141,756)
Increase (Decrease) in operating payables	22,692	14,867
Decrease (Increase) in financial assets for securities business	38,306	(11,725)
Increase (Decrease) in financial liabilities for securities business	(44,128)	71,708
Others	(5,846)	25,479
Income tax paid	(50,576)	(53,264)
Net cash flows from operating activities	78,245	30,700
Cash flows from investing activities		
Decrease in restricted deposits	192	21,203
Increase in time deposits	(14,785)	(17,681)
Decrease in time deposits	12,439	15,110
Purchase of property, plant and equipment	(19,688)	(12,657)
Purchase of intangible assets	(34,560)	(42,325)
Acquisition of subsidiaries	(60,607)	(33,612)
Acquisition of investments in associates and joint ventures	(4,000)	(19,401)
Purchase of investment securities for banking business	(378,355)	(249,291)
Proceeds from sales and redemption of investment securities for banking business	343,721	348,081
Purchase of investment securities for insurance business	(6,795)	(11,310)
Proceeds from sales and redemption of investment securities for insurance business	3,821	9,759
Purchase of investment securities	(69,706)	(53,213)
Proceeds from sales and redemption of investment securities	7,662	20,852
Other payments	(12,458)	(4,867)
Other proceeds	9,041	2,511
Net cash flows (used in) from investing activities	(224,078)	(26,841)
Cash flows from financing activities		
Proceeds from issuance of common stock	182,550	549
Net increase (Decrease) in short-term borrowings	(1,597)	(57,529)
Increase (Decrease) in commercial papers	(32,500)	28,000
Proceeds from long-term debt	158,352	212,100

(Millions of Yen)

	Fiscal year ended December 31, 2015 (January 1 to December 31, 2015)	Fiscal year ended December 31, 2016 (January 1 to December 31, 2016)
Repayment of long-term debt	(65,831)	(163,832)
Proceeds from issuance of bonds	—	39,796
Cash dividends paid	(5,952)	(6,408)
Others	(13,191)	(7,476)
Net cash flows (used in) from financing activities	221,831	45,200
Effect of change in exchange rates on cash and cash equivalents	(3,604)	(1,819)
Net increase (Decrease)in cash and cash equivalents	72,394	47,240
Cash and cash equivalents at the beginning of the year	428,635	501,029
Cash and cash equivalents at the end of the year	501,029	548,269

(5) Assumptions for going concern

No items to report

(6) Notes to the summary of consolidated financial statements

Basis of preparation

The Rakuten Group's summary of consolidated financial statements meets the requirements set out under Article 1-2 of the Rules on Terminology, Formats and Compilation Methods of Consolidated Financial Statements under which the Rakuten Group is qualified as a "specified company" and duly prepares such summary under IFRS based on the provisions of Article 93 of the Rules on Consolidated Financial Statements.

Significant accounting policies

(1) Basis of Consolidation

1) Subsidiaries

A subsidiary is an entity (including structured entities) that is controlled by the Group Companies. The Group Companies control an entity when they are exposed, or have rights, to variable returns from involvement with the entity and have the ability to affect those returns through power over that entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group Companies control another entity or not. Between the date of obtaining control and the date of losing control, the consolidated financial statements of the Group Companies include the financial statements of each controlled subsidiary.

The Group Companies apply the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred by the Group Companies to the former owners of the acquiree and the equity interests issued by the Group Companies. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs incurred by the Group Companies, such as agent commissions, legal fees, due diligence costs, other professional fees and other consulting costs, are recognized as expenses in the period in which they are incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The acquisition date is the date when control is transferred to the acquirer. Judgments may be required in deciding the acquisition date and whether control is transferred from one party to another. Further, the Group Companies recognize any non-controlling interest in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the fair value of non-controlling interest and the fair value of any pre-existing interest in the acquiree at the acquisition date over the net identifiable assets acquired and liabilities assumed. Whereas if the aggregate of the consideration transferred, the fair value of non-controlling interest in the acquiree and the fair value of pre-existing interest in the acquiree at the acquisition date is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of income as a bargain purchase transaction.

Changes in the ownership interest in subsidiaries are accounted for as equity transactions if the Group Companies retain control over the subsidiaries. Any difference between the adjustment to the non-controlling interests and the fair value of the consideration transferred or received is recognized directly in equity attributable to owners of the Company.

Intercompany balances and transactions are eliminated in consolidation. Unrealized gains or losses included in assets resulting from transactions within the Group Companies are also eliminated. The financial statements of each subsidiary are adjusted, if necessary, to comply with the accounting policies of the Group Companies.

2) Associates and Joint Arrangements

Associates are entities over which the Group Companies have significant influence but do not have control over the financial and operating policies of such entities. Significant influence is presumed to exist when the Group Companies hold 20% to 50% of the voting power of another entity. The factors considered in determining whether or not the Group Companies have significant influence include representation on the board of directors. The existence of these factors can lead to the determination that the Group Companies have significant influence, even though the investment of the Group Companies is less than 20% of the voting stock.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the activities that have significant influence on variable returns from arrangements require the unanimous consent of the parties sharing control. Investments in a joint arrangement are classified as a joint operation or a joint venture depending upon the rights and obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for using the equity method, except where they are classified as assets held for sale in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” and accordingly accounted for in accordance with IFRS 5.

The Group Companies’ share of the operating results of associates and joint ventures is adjusted to conform to the accounting policies of the Group Companies, and is reported in the consolidated statement of income as “Share of income of associates and joint ventures”. The Group Companies’ share of investees’ gains or losses resulting from intercompany transactions is eliminated on consolidation. Under the equity method of accounting, the investment of the Group Companies in associates and joint ventures are initially recorded at cost, and subsequently increased (or decreased) to reflect both the Group Companies’ share of the post-acquisition net income and other movements included directly in equity of the associates and joint ventures.

Goodwill arising on the acquisition of associates or joint ventures is included in the carrying value of the investment, and the Group Companies carry out any impairment testing on the entire interest in an associate. The Group Companies assess whether there is any objective evidence that the investments in associates and joint ventures are impaired at each reporting date. If there is any objective evidence of impairment, an impairment test is performed by comparing the investment’s recoverable amount, which is the higher of its value in use or fair value less costs of disposal, with its carrying amount. An impairment loss recognized in prior periods is only reversed if there has been a change in the estimates used to determine the investment’s recoverable amount since the last impairment loss was recognized. The impairment loss is reversed to the extent that the carrying amount of the investment equals the recoverable amount.

For investments in joint operations, the Group Companies recognize their share of the revenues, expenses, assets and liabilities of each joint operation.

(2) Business Combinations

The Group Companies use the acquisition method to account for business combinations. In accordance with the recognition principles of IFRS 3 “Business Combinations,” the identifiable assets, liabilities and contingent liabilities of the acquiree are measured at their fair values at the acquisition date except:

- Deferred tax assets or liabilities and liabilities (or assets) related to employee benefit arrangements are recognized and measured in accordance with IAS 12 “Income taxes” and IAS 19 “Employee benefits,” respectively; and liabilities related to share-based payments are recognized and measured in accordance with IFRS 2 “Share-based Payment;” and
- Non-current assets and operations classified as held for sale are measured in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations.”

If the initial accounting for business combinations is incomplete by the end of the reporting period in which the business combinations occur, the Group Companies report provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are retrospectively adjusted during the measurement period to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized as of that date. Additional assets or liabilities are recognized if new information, if known, would have resulted in the additional recognition of assets or liabilities. The measurement period does not exceed one year.

Goodwill relating to acquisitions prior to the date of transition to IFRSs is reported in accordance with previous accounting standards.

(3) Foreign Currencies

1) Foreign Currency Transactions

Foreign currency transactions are translated into the functional currencies of individual foreign subsidiaries using the spot exchange rate at the date of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currencies using the spot exchange rate at the end of each reporting period. Non-monetary assets and liabilities measured at fair value that are denominated in foreign currencies are retranslated using the spot exchange rates at the date when the fair value was determined.

Exchange differences arising from settlement and translation of foreign currency denominated monetary assets and liabilities at the period end closing rate are recognized in the consolidated statement of income. However, when profits or losses related to non-monetary items are recognized in comprehensive income, any exchange differences are also recognized in other comprehensive income.

2) Foreign Operations

Assets and liabilities of foreign operations (including goodwill and fair value adjustments arising on the acquisition of foreign operations) are translated into Japanese yen using the spot exchange rate at the reporting date. Income and expenses are translated into Japanese yen at the average exchange rates for the period.

Exchange differences arising from translation of financial statements of foreign operations are recognized in other comprehensive income.

These differences are presented as “Foreign currency translation adjustments” in other components of equity. On disposal of the entire interest of foreign operations, and on the partial disposal of an interest which involves loss of control, significant influence or joint control, the cumulative amount of the exchange differences is reclassified to income as a part of gains or losses on disposal.

(4) Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and insignificant risk of changes in value. However, short-term highly liquid investments in the banking business are excluded.

(5) Financial Instruments

1) Non-derivative Financial Assets

The Group Companies recognize trade and other receivables at the time they arise. All other financial assets are recognized at the contract dates when the Group Companies become a party to the contractual provisions of the instrument.

The following is a summary of the classification and measurement model of non-derivative financial assets.

<u>Financial Assets Measured at Amortized Cost</u>

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- The asset is held within the Group Companies’ business model with the objective of holding assets in order to collect contractual cash flows; and

- The contractual terms of the instrument give rise on a specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are initially measured at fair value plus directly attributable transaction costs. Subsequently, the carrying amount of the financial assets measured at amortized cost is measured based on the effective interest method, less impairment loss when necessary.

Impairment of Financial Assets Measured at Amortized Cost

For financial assets measured at amortized cost, on a quarterly basis, the Group Companies assess whether there is any objective evidence that financial assets are impaired. Financial assets are impaired and impairment losses are incurred if:

- There is any objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the assets and up to the reporting date; and
- The loss event had an impact on the estimated future cash flows of the financial assets and a reliable estimate can be made.

Objective evidence that a financial asset is impaired includes:

- A breach of contract, such as a default or delinquency in interest or principal payments;
- Extension of the collection period of a receivable under specific conditions, which would not have been given in the absence of such circumstances;
- Indication of borrower's bankruptcy; and
- The disappearance of an active market.

The Group Companies review the evidence of impairment for financial assets measured at amortized cost individually or collectively. For significant financial assets, the Group Companies assess the evidence of impairment individually. If it is not necessary to impair significant financial assets individually, the Group Companies collectively assess whether or not any incurred but not yet reported impairment exists. Financial assets are grouped based on similar credit risk characteristics and collectively assessed for impairment.

In collectively assessing for impairment, the Group Companies adjust the impairment loss if it is determined that the actual loss, which reflects the current economic and credit conditions, differs from historical experience, estimated timing of recovery, and expected amount of loss.

The amount of the impairment loss for financial assets is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the financial assets is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. The allowance for doubtful accounts is written off when the recovery of financial assets in the future cannot be expected substantially and all collateral has been realized or has been transferred to the Group Companies. If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease can be objectively linked to an event occurring after the impairment was recognized, the impairment loss shall be reversed by adjusting the allowance account in the consolidated statement of income. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

Financial Assets at Fair Value through Profit or Loss ("FVTPL")

Financial assets other than equity instruments that do not meet the conditions for amortized cost are measured at fair value with gains or losses on remeasurement recognized in the consolidated statement of income. Those financial assets include financial assets held for trading.

Equity investments are measured at fair value with gains or losses on re-measurement recognized in the consolidated statement of income unless the Group Companies make an irrevocable election to measure equity investments as at fair value through other comprehensive income ("FVTOCI") on initial recognition.

Financial assets measured at FVTPL are initially measured at fair value and transaction costs are recognized in the consolidated statement of income when they are incurred.

Financial Assets at FVTOCI

On initial recognition, the Group Companies may make an irrevocable election to measure investments in equity instruments as at FVTOCI. The election is made only for equity investments other than those held for trading.

Financial assets measured at FVTOCI are initially measured at their fair value (including directly attributable transaction costs). Subsequently, they are measured at fair value, and gains and losses arising from changes in fair value are recognized in other comprehensive income and presented as “Gains (losses) on financial assets measured at fair value through other comprehensive income” in other components of equity.

However, dividends on financial assets measured at FVTOCI are recognized in the consolidated statement of income as “Revenue” or “Financial income.”

Derecognition of Financial Assets

The Group Companies derecognize a financial asset when the contractual rights to the cash flows from the asset expire, or when the Group Companies transfer the contractual right to receive cash flows from financial assets in transactions in which substantially all the risks and rewards of ownership of the asset are transferred to another entity. Any rights to transferred financial asset qualifying for derecognition created or retained by the Group Companies are accounted for separately.

2) Non-derivative Financial Liabilities

Debt securities issued by Group Companies are initially recognized on the issue date. All other financial liabilities are recognized when the Group Companies become a party to the contractual provisions of the instruments.

The Group Companies derecognize financial liabilities when they are extinguished, i.e., when the obligation specified in the contract is discharged, cancelled or expired.

The Group Companies classify financial liabilities as accounts payable-trade, deposits for banking business, financial liabilities for securities business, bonds and borrowings and other financial liabilities as non-derivative financial liabilities, initially measure them at fair value, and subsequently measure them at amortized cost using the effective interest method.

To reduce differences substantially caused by measurement of assets or liabilities or recognition of income on different bases, some deposits for banking business are designated as financial liabilities at FVTPL. Among unrealized gains and losses arising from changes in the fair values of such financial liabilities, due to changes in the credit risk of the liabilities are included in a separate component of net assets.

3) Derivatives

Derivatives Qualifying for Hedge Accounting

The Group Companies enter into derivative transactions to manage fair value risk of fluctuations in interest rates, interest rate risk and foreign currency risk. The primary derivatives used by the Group Companies are interest rate swaps and foreign exchange forward contracts.

At the initial designation of the hedging relationship, the Group Companies document the relationship between the hedging instrument and the hedged item, along with their risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, the evaluation of the effectiveness of hedging instrument in offsetting the hedged risk, and the measurement of ineffectiveness.

At the inception of the hedge and on an ongoing basis, the Group Companies assess whether the Group Companies can forecast if the hedging instrument is highly effective in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk throughout the period for which the hedge is designated.

Derivatives are initially recognized at fair value with transaction costs recognized in the consolidated statement of income as incurred. Subsequently derivatives are measured at fair value, and gains and losses arising from changes in the fair value are accounted for as follows:

- Fair Value Hedges

The changes in the fair value of the hedging instrument resulting from subsequent measurements are recognized in the consolidated statement of income. The gains or losses on the hedged items attributable to the hedged risks are recognized in the consolidated statement of income, and the carrying amounts of the hedged items are adjusted.

- Cash Flow Hedges

When derivatives are designated as hedging instruments to hedge the exposure to variability in cash flows, that are attributable to a particular risk associated with recognized assets or liabilities and might affect income, the portion of the gain and loss on the derivative that is determined to be an effective hedge is presented as "Gains (losses) on cash flow hedges recognized in other comprehensive income" in the other components of equity. The balances of cash flow hedges are reclassified to income from other comprehensive income in the periods when the cash flows of hedged items affect income, in the same line items of the consolidated statement of comprehensive income as those of hedged items. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of income. However, in cases where hedged items designate to recognize non-financial assets or liabilities, the amounts recognized as other comprehensive income to the effective portion would be accounted for as adjustments to the initial book value of non-financial assets or liabilities

Hedge accounting is discontinued prospectively when the hedge no longer qualifies for hedge accounting, or when the hedging instrument is expired, sold, terminated or exercised, or when the designation is revoked.

Hedge accounting is discontinued prospectively when the hedge no longer qualifies for hedge accounting, or when the hedging instrument is expired, sold, terminated or exercised, or when the designation is revoked.

<u>Derivatives Not Qualifying for Hedge Accounting</u>

The Group Companies hold some derivatives for hedging purposes that do not qualify for hedge accounting. Derivatives may also be held for trading as opposed to hedging purposes. Any changes in fair value of these derivatives are recognized immediately in the consolidated statement of income.

<u>Embedded Derivatives</u>

Some hybrid contracts, which contain both a derivative and a non-derivative component, are included among the financial instruments and other contracts. In such cases, the derivative component is termed an embedded derivative, with the non-derivative component representing the host contract. Where the host contract is a financial liability, if the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid contract itself is not classified as FVTPL as a financial liability, the embedded derivative is separated from the host contract and accounted for as a derivative. The financial liability component of the host contract is then accounted for in accordance with the Group Companies' accounting policy for non-derivative financial liabilities.

4) Presentation of Financial Instruments

Financial assets and liabilities are offset, with the net amount presented in the consolidated statement of financial position, only if the Group Companies hold a currently enforceable legal right to set off the recognized amounts, and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

5) Financial Guarantee Contracts

Financial guarantee contracts are contracts that require the guarantor to make specified payments to reimburse the guarantee for losses incurred due to a debtor failing to make payments when due in accordance with the original or modified terms of a debt instrument.

Such financial guarantee contracts are measured initially at fair value on the date of the contract. Subsequent to initial recognition, the Group Companies measure the financial guarantee at the higher of the best estimate of expenditure required to settle the obligation under the financial guarantee contract, and the unamortized balance of total amount of future guarantee charges.

(6) Property, Plant and Equipment

All property, plant and equipment are recorded at cost less any accumulated depreciation and accumulated impairment losses.

Cost includes costs directly attributable to the acquisition and of dismantling and removal of the asset, as well as any estimated costs of restoring the site on which they are located. Property, plant and equipment are subsequently carried at the historical cost basis measured using the cost model.

Depreciation is calculated based on the depreciable amount. The depreciable amount is the cost of an asset cost less its residual value.

Depreciation of property, plant and equipment is mainly computed under the straight-line method based on the estimated useful life of each component. The straight-line method is used because it is considered most closely approximate the pattern in which the future economic benefits of assets are expected to be consumed by the Group Companies. Leased assets are depreciated over the shorter of the lease term and their useful lives if there is no reasonable certainty that the Group Companies will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant assets for the years ended December 31, 2015 and 2016 are as follows:

- Buildings and accompanying facilities 10–50 years
- Furniture, fittings and equipment 5–10 years

The depreciation methods, useful lives and residual values are reviewed at the end of each reporting period, and revised if necessary.

(7) Intangible Assets

1) Goodwill

Initial Recognition

Goodwill arising on the acquisition of a subsidiary is recognized as an intangible asset. Measurement of goodwill on initial recognition is described in (1) Basis of Consolidation.

Subsequent Measurement

Goodwill is measured at cost less accumulated impairment losses.

2) Capitalized Software Costs

The Group Companies incur certain costs to purchase or develop software primarily for internal-use.

Expenditures arising from research activities to obtain new scientific or technical knowledge are recognized as expenses when they are occurred. Expenditures arising from development activities are capitalized as software, if, and only if, they are reliably measurable, they are technically feasible, it is highly probable that they will generate future economic benefits, and the Group Companies intend and have adequate resources to complete their developments and use or sell them.

Capitalized software is measured at cost less accumulated amortization and any accumulated impairment losses.

3) Intangible Assets Acquired in Business Combinations

Intangible assets that are acquired in business combinations, such as trademarks and other similar items, are recognized separately from goodwill, and are initially recognized at fair value at the acquisition date. Subsequently such intangible assets are measured at cost less any accumulated amortization and accumulated impairment losses .

4) Other Intangible Assets

Other intangible assets with finite useful lives are measured at cost less any accumulated amortization and accumulated impairment losses.

5) Amortization

Amortization is calculated based on the acquisition cost of an asset less its residual value. Within intangible assets with definite useful lives, the value of the insurance business and its customer relationships acquired through business combinations are amortized based on calculating the occurrence ratio of insurance revenue over the expected period of insurance revenue. Other intangible assets are amortized under the straight-line method. These methods are used because they are considered to most closely approximate the pattern in which the future economic benefits of intangible assets are expected to be consumed by the Group Companies.

Estimated useful lives of significant intangible assets with definite useful lives are as follows:

- Software mainly 5 years
- Value of the insurance business and its acquired customer relationships 30 years

The amortization methods, useful lives and residual values are reviewed at the end of each reporting period, and revised if necessary.

(8) Leases (Lessee)

Leasing Transactions

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. In the case that fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, such transactions are classified as lease transactions.

Finance Leases

Leases that transfer all risks and benefits of ownership of the leased item to lessee are classified as finance leases.

Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. After commencement of the lease, the Group Companies' accounting policy appropriate to each asset is applied.

The discount rate used in calculating the present value of the minimum lease payments is the implicit interest rate of the lease, if where this can be determined practically. Where it is impractical to determine such a rate, the lessee's incremental borrowing rate shall be used.

The minimum lease payments are apportioned between finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

A leased asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating Leases

Lease arrangements, except for finance leases that have not been capitalized in the consolidated statement of financial position, are classified as operating leases.

Under operating lease transactions, lease payments are recognized as an expense using the straight-line method over the lease term in the consolidated statement of income.

(9) Impairment of Non-financial Assets

The Group Companies assess at each reporting date whether there is an indication that a non-financial asset, except for inventories and deferred tax assets, may be impaired. If any such indication exists, the Group Companies estimate the recoverable amount of the asset. For goodwill, intangible assets with indefinite useful lives, and intangible assets not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit, or group of cash-generating units (CGU) is the higher of its value in use and fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. A CGU is the smallest group of assets, which generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or group of assets.

In principle, each entity is considered to be a CGU. Goodwill is allocated to a CGU or a group of CGUs based on the unit by which the goodwill is monitored for internal management purposes.

Since corporate assets do not generate independent cash flows, if there is an indication that corporate assets may be impaired, the recoverable amount is determined for the CGU or group of CGUs to which the corporate assets belong.

Impairment losses are recognized in the consolidated statement of income when the book value of an asset or CGU exceeds its recoverable amount. Such impairment losses are recognized first reducing the carrying amount of any allocated goodwill and then are allocated to the other assets of the CGU on a pro-rata basis based on the carrying amount of such assets.

Impairment losses recognized in respect of goodwill are not reversed. Assets other than goodwill are reviewed at the end of each reporting period to assess whether there is any indication that an impairment loss recognized in prior years may no longer exist or may have decreased. An impairment loss recognized is reversed if an indication of the reversal of impairment losses exists and there is a change in the estimates used to determine the asset’s recoverable amount. The reversal of an impairment loss does not exceed the carrying amount, net of depreciation and amortization, which would have been determined if any impairment loss had never been recognized for the asset in prior years.

(10) Provisions

Provisions are recognized when the Group Companies have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

(11) Insurance

General Insurance Accounting

Insurance contracts issued and reinsurance contracts held by insurers are accounted for under IFRS 4 “Insurance contracts” based on the accounting policies previously applied in accordance with Japanese accounting standards for insurance companies.

Policy reserves and others for insurance business

The Group Companies apply the measurement of insurance liabilities which has been applied for insurance contracts in Japan. A liability adequacy test is performed in consideration of current estimates of cash inflows, such as related insurance premiums and investment income, and cash outflows such as insurance claims and benefits and operating expenses. If the test shows that the liability is inadequate, the entire deficiency is recognized in the consolidated statement of income.

(12) Equity

Common Stock

Proceeds from the issuance of equity instruments by the Company are included in “Common stock” and “Capital surplus.” Direct issuance costs (net of tax) are deducted from “Capital surplus”.

Treasury Stock

When the Company repurchases treasury stock, the consideration paid, including direct transaction costs (net of tax), is recognized as a deduction from equity. When the Company sells treasury stock, the consideration received is recognized as an addition to equity.

(13) Share-based Payments

The Group Companies have stock option plans as incentive plans for directors, executive officers, and employees. The fair value of stock options at the grant date is recognized as an employee expense over the vesting period from the grant date as a corresponding increase in capital surplus. The fair value of the stock options is measured using the Black-Scholes model or other models, taking into account for the terms of the options granted. The Group Companies regularly review the assumptions and revise estimates of the number of options that are expected to vest, as necessary.

(14) Recognition of Revenue

The Group Companies recognize revenue, except for interest, dividend and other income in accordance with IFRS 9 and insurance revenues in accordance with IFRS 4, upon transfer of promised goods or services to customers in amounts that reflect the consideration to which the Group Companies expect to be entitled in exchange for those goods or services based on the following five step approach:

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Step 1: Identify the contracts with customers
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

We recognize the incremental costs of obtaining contracts with customers and the costs directly involved in fulfilling contracts with a customer as an asset (hereinafter “assets arising from contract costs”) if those costs are expected to be recoverable. The incremental costs of obtaining contracts are those costs that the Group Companies incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Assets arising from contract costs are written off in equal annual installments over the period of four to ten years depending on the estimated duration of contracts with customers.

(15) Financial Income and Expenses

Financial income mainly comprises interest income, dividend income and changes in the fair value of financial assets measured at FVTPL. Interest income is accrued using the effective interest method. Dividend income is recognized on the date when the right of the Group Companies to receive the dividend is established.

Financial expenses mainly comprise interest expenses. Interest expenses are accrued using the effective interest method.

Financial income and expenses incurred from the finance business of the subsidiaries are included in “Revenue” and “Operating expenses.”

(16) Short-term Employee Benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed during the period when the related service is rendered. Accrued bonuses are recognized as liabilities, when the Group Companies have present legal or constructive obligation and when reliable estimates of the obligations can be made.

(17) Current and Deferred Income Tax

The income taxes expense comprises current and deferred taxes. These are recognized in the consolidated statement of income, except for income taxes which arise from business combinations or which are recognized either in other comprehensive income or directly in equity.

Current taxes are calculated by the expected tax payable or receivables on the taxable income, using the tax rates enacted or substantially enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and their corresponding tax bases. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of an asset or liability in a transaction, which is not a business combination and, at the time of the transaction, affects neither income in the consolidated statement of income nor taxable income.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply in the period when the related deferred tax assets is realized or the deferred tax liability is settled, based on tax laws that have been enacted or substantively enacted by the end of reporting period.

Deferred tax assets are recognized for unutilized tax losses, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable income will be available against which such temporary differences can be utilized.

Deferred tax assets and liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures. However, if the Group Companies are able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future, deferred tax liabilities are not recognized. Deferred tax assets are recognized only to the extent that it is probable that there will be sufficient taxable income against which the benefit of temporary differences can be utilized and the temporary differences will reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to settle current tax assets and liabilities on a net basis.

(18) Earnings Per Share

The Group Companies disclose basic and diluted earnings per share (attributable to the owners of the Company) related to common stock. Basic earnings per share is calculated by dividing net income (attributable to equity owners of the Company) by the weighted average number of common stock outstanding during the reporting period, adjusted for the number of treasury stock held. Diluted earnings per share are calculated, for the dilutive effects of all potential common stock by dividing net income (attributable to equity owners) by the weighted average number of common stock outstanding during the reporting period, adjusted for the number of treasury stock.

Potential common stock of the Group Companies relates to the stock option plan.

On July 1, 2012, the Company implemented a 100-for-1 share split. Earnings per share (attributable to equity owners) for each reporting period are calculated by the number of common stock outstanding after incorporating the share split.

(19) Operating Segments

Operating segments correspond to business activities, from which the Group Companies earn revenues and incur expenses, including revenues and expenses relating to transactions with other operating segments. Discrete financial information for operating results of all operating segments is available, and is regularly reviewed by the Board of Directors of the Group Companies in order to determine the allocation of resources to the segment and assess its performance.

Significant Accounting Estimates and Judgments

(1) Significant Accounting Estimates and Assumptions

In the preparation of the consolidated financial statements in accordance with IFRS, the Group Companies make estimates and assumptions concerning future events. These accounting estimates are inherently not anticipated to equal actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the following reporting period are addressed below.

(a) Goodwill Evaluation

An impairment test is conducted at least once a year for goodwill recognized by the Group Companies, regardless of whether there is an indication of impairment or not. The recoverable amount of CGUs, to which goodwill is allocated, is mainly calculated based on estimated future cash flows, estimated growth rate, and discount rate. This calculation is based on judgments and assumptions that are made by the management of the Group Companies, considering business and market conditions. The Group Companies consider these assumptions to be significant because, if the assumed conditions change, the estimated recoverable amounts might be significantly different.

(b) Recoverability of Deferred Tax Assets

For temporary differences that are differences between carrying value of an asset or liability in the consolidated statement of financial position and its tax base, the Group Companies recognize deferred tax assets and deferred tax liabilities in respect of such deferred tax assets and deferred tax liabilities calculated using the tax rates based on tax laws that have been enacted or substantively enacted by the end of the reporting period and the tax rates that are expected to apply to the period when the deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets are recognized for all deductible temporary differences, the unutilized tax losses carried forward and the unutilized tax credit carried forward to the extent that it is probable that taxable income will be available. The estimation of the taxable income for the future is calculated based on the business plan approved by the management of the Group Companies, and is based on management's subjective judgments and assumptions. The Group Companies consider these assumptions to be significant because changes in the assumed conditions and amendments of tax laws in the future might significantly affect the calculation of the amounts of deferred tax assets and deferred tax liabilities.

(c) Methods of Determining Fair Value for Financial Instruments Measured at Fair Value Including Derivative Instruments

Financial assets and financial liabilities including derivatives, held by Group Companies are measured at the following fair values:

- Quoted prices in active markets for identical assets or liabilities;
- Fair value calculated using observable inputs other than quoted prices for the assets or liability, either directly or indirectly; and
- Fair value calculated using valuation techniques incorporating unobservable inputs.

In particular, the fair value estimated through valuation techniques that incorporate unobservable inputs is premised on the decisions and assumptions of the management of the Group Companies, such as appropriate experience assumptions, suppositions, and the model utilized. The Group Companies consider the estimations to be significant as it is probable that the changes of estimations and assumptions might have significant influence on the calculation of fair value for financial instruments.

(d) Impairment of Financial Assets Measured at Amortized Cost

For financial assets measured at amortized cost, the Group Companies assess whether there is any objective evidence that financial assets are impaired each quarter. Where any such objective evidence exists, the Group Companies recognize the difference between the carrying value of the asset and the present value of estimated future cash flows as impairment losses.

When estimating future cash flows, management makes judgments considering the probability of default, time of recovery and historical experience, and whether after reflecting current economic and credit conditions, actual losses are greater than or less than such trends in the past. If these estimations and assumptions change, the amount of any impairment losses for financial assets measured at amortized cost might vary widely, therefore, the Group Companies consider these estimations to be significant.

(e) Provisions

The Group Companies record certain provisions, such as provision for customer points and provision for loss on interest repayments. Regarding the provision for customer points, in preparation for the future use of points by customers, the Group Companies use historical experience to estimate the provision for the Rakuten Super Point Program. The Group Companies estimate future interest repayments based on historical experience to calculate the provision for loss on interest repayments. These provisions are estimated on the premise of management's decisions and the assumptions of the Group Companies. The Group Companies consider the estimations to be significant as it is probable that the changes of estimations and assumptions might have a significant influence on the calculation of the amount of the provisions.

(f) Liability Adequacy Test for Insurance Contracts

The Group Companies perform a liability adequacy test for cash inflow from insurance premiums and profits and others from asset management, and cash outflow from insurance claims and business costs and others in consideration of the estimated present value of all contractual cash outflows.

(2) Significant Judgment in Applying the Accounting Policies of the Group Companies

In the process of applying the accounting policies, the management of the Group Companies has made certain decisions which have a significant influence on the amounts recognized in the consolidated financial statements.

The Group Companies, mainly in the banking business and the credit card business, transact with structured entities, which are designed so that voting rights or similar rights are not the dominant factor in deciding who controls the entities. The management of the Group Companies decide whether the Group Companies are controlling the entities or not. All related facts and circumstances on the involvement with the structured entity are considered in deciding control over such an entity.

(Segment Information)

(1) General Information

As a comprehensive internet service provider engaged in the two main activities of Internet Services and FinTech (formerly called Internet Finance), The Group Companies were previously organized into three reporting segments: “Internet Services,” “FinTech” and “Others.” From the three months ended September 30, 2016, the Rakuten Group reviewed its internal reporting control framework following the introduction of an internal Company System. Accordingly, businesses that had previously comprised the “Others” segment were integrated into the businesses that comprise the “Internet Services” segment. As a result, the previous three reporting segments were changed to two reporting segments: “Internet Services” and “FinTech.

Segment information for the previous fiscal year has been prepared based on the classification method after the change. Discrete financial information for operating results of all operating segments is available, and is regularly reviewed by the Board of Directors of the Group Companies in order to determine the allocation of resources and assess performance.

The “Internet Services” segment comprises businesses running various EC (e-commerce) sites including an internet shopping mall Rakuten Ichiba, online cash-back sites, travel booking sites, portal sites and digital content sites, along with business for advertising and similar on these sites, as well as provision of messaging and communication services and others, and management of professional sports.

The “FinTech” segment engages in businesses providing services over the internet related to banking and securities, credit cards, life insurance, and electronic money.

(2) Measurement of Segment Revenue and Segment Profit (Loss)

The operating segment information is reported in accordance with IFRS as stated in the significant accounting policies, and operating segment revenue and profit or loss are those before intersegment eliminations without consideration of consolidation adjustments, except for certain consolidated subsidiaries. Since the first quarter of the previous fiscal year, the internal measures the management relies upon in making decisions have been changed from operating income in accordance with IFRS to Non-GAAP operating income—operating income in accordance with IFRS adjusted for unusual items and other adjustment items prescribed by the Rakuten Group.

The management believes that the disclosure of Non-GAAP financial measures facilitates comparison between the Rakuten Group and peer companies in the same industry or comparison of its business results with those of the prior fiscal years by stakeholders, and can provide useful information in understanding the underlying business results of the Rakuten Group and its future outlook. Unusual items refer to one-off items that Rakuten believes shall be excluded for the purpose of preparing future outlook based on certain rules. Other adjustment items are those tend to differ depending on the standards applied, therefore less comparable between companies, such as stock-based compensation expense and amortization of acquisition-related intangible assets.

The Group Companies do not allocate assets and liabilities to operating segment information used by the chief operating decision maker.

Fiscal year ended December 31, 2015 (January 1 to December 31, 2015)

(Millions of Yen)

	Internet Services	FinTech	Total
Segment Revenue	492,836	275,136	767,972
Segment Profit	90,909	63,899	154,808
Other items			
Depreciation and amortization	27,659	13,731	41,390

Fiscal year ended December 31, 2016 (January 1 to December 31, 2016)

(Millions of Yen)

	Internet Services	FinTech	Total
Segment Revenue	560,555	296,066	856,621
Segment Profit	55,568	65,587	121,155
Other items			
Depreciation and amortization	31,738	16,333	48,071

Reconciliation from Segment Revenue to Consolidated Revenue

(Millions of Yen)

	Fiscal year ended December 31, 2015 (January 1 to December 31, 2015)	Fiscal year ended December 31, 2016 (January 1 to December 31, 2016)
Segment Revenue	767,972	856,621
Intercompany transactions, etc.	(54,417)	(74,705)
Consolidated Revenue	713,555	781,916

Reconciliation from Segment Profit to Income Before Income Tax

(Millions of Yen)

	Fiscal year ended December 31, 2015 (January 1 to December 31, 2015)	Fiscal year ended December 31, 2016 (January 1 to December 31, 2016)
Segment Profit	154,808	121,155
Intercompany transactions, etc.	(2,655)	(2,075)
Non-GAAP Operating Income	152,153	119,080
Amortization of Intangible Assets (PPA)	(8,322)	(7,789)
Stock Based Compensation	(6,088)	(7,344)
One-off Items	(43,054)	(25,970)
Operating income	94,689	77,977
Financial income and expenses	(3,688)	(3,245)
Share of income of associates and joint ventures	986	(809)
Income before income tax	91,987	73,923

One-off items recorded in the previous fiscal year ended December 31, 2015 were the expenses associated with the relocation of the headquarters of ¥4,171 million and the impairment loss of goodwill and intangible assets of ¥ 38,883 million.

One-off items recorded in the current fiscal year ended December 31, 2016 was the impairment of goodwill and intangible assets of ¥ 25,970 million.

(3) Revenue from external customers by major products and services of the Group Companies is as follows:

(Millions of yen)

	Rakuten Ichiba and Rakuten Travel	Rakuten Card	Rakuten Bank	Others	Revenue from external customers
Year ended December 31, 2015	189,517	92,199	53,174	378,665	713,555
Year ended December 31, 2016	194,591	108,829	59,621	418,875	781,916

(4) Geographic Information

For the year ended December 31, 2015

(Millions of yen)

	Japan	Americas	Europe	Others	Total
Revenue from external customers	573,839	106,878	24,544	8,294	713,555
Property, plant and equipment and intangible assets	186,212	249,142	122,783	5,057	563,194

For the year ended December 31, 2016

(Millions of yen)

	Japan	Americas	Europe	Others	Total
Revenue from external customers	625,468	120,633	22,565	13,250	781,916
Property, plant and equipment and intangible assets	217,767	216,438	117,047	8,106	559,358

(5) Major Customers

For the year ended December 31, 2015

Disclosure of major customers is omitted because the proportion of revenue from an individual external customer does not exceed 10% of consolidated revenue.

For the year ended December 31, 2016

Disclosure of major customers is omitted because the proportion of revenue from an individual external customer does not exceed 10% of consolidated revenue.

Earnings per Share

Basic earnings per share are calculated by dividing the net income attributable to equity owners by the weighted average number of common stock outstanding during the year. The weighted average number of common stock outstanding during the year does not include treasury stock.

Diluted earnings per share are calculated on the assumption of full conversion of potentially dilutive common stock, adjusted for the weighted average number of common stock outstanding.

The Company has potential common stock related to stock options. The number of shares that may be acquired through these stock options is calculated at fair value (annual average stock price of the Company) based on the value of the stock acquisition rights that would be granted to unexercised stock options.

Per share information and the weighted average number of shares used in the calculation of earnings per share are as follows:

	Year ended December 31, 2015			Year ended December 31, 2016		
	Basic	Adjustments	Diluted	Basic	Adjustments	Diluted
Net income attributable to owners of the parent company (Millions of yen)	44,436	—	44,436	37,995	(0)	37,995
Weighted average number of shares (Thousands of shares)	1,374,536	10,328	1,384,864	1,425,487	11,481	1,436,968
Earnings per share (yen)	32.33	(0.24)	32.09	26.65	(0.21)	26.44

Breakdown of Operating Expenses

(Millions of Yen)

	Fiscal year ended December 31, 2015 (January 1 to December 31, 2015)	Fiscal year ended December 31, 2016 (January 1 to December 31, 2016)
Advertising and promotion expenditures	100,554	121,286
Employee benefits expenses	133,919	145,116
Depreciation and amortization	40,122	44,257
Communication and maintenance expenses	19,327	20,345
Consignment and subcontract expenses	35,099	40,171
Allowance for doubtful accounts charged to expenses	22,119	26,694
Cost of sales of merchandise and service revenue	134,166	158,166
Interest expense for finance business	6,289	5,560
Commission expense for finance business	7,653	8,773
Insurance claims and other payments, and provision of policy reserves and others for insurance business	16,601	16,740
Others	85,152	90,490
Total	601,001	677,598

(Other Income)

(Millions of Yen)

	Fiscal year ended December 31, 2015 (January 1 to December 31, 2015)	Fiscal year ended December 31, 2016 (January 1 to December 31, 2016)
Valuation gains on securities	22,016	3,093
Others	4,975	2,230
Total	26,991	5,323

(Impairment Loss)

(Millions of Yen)

	Fiscal year ended December 31, 2015 (January 1 to December 31, 2015)	Fiscal year ended December 31, 2016 (January 1 to December 31, 2016)
Impairment Loss of Goodwill etc.	38,135	25,359
Total	38,135	25,359

Note: In the fiscal year ended December 31, 2015, impairment loss of ¥17,247 million, ¥7,808 million and ¥13,080 million were recognized for PRICEMINISTER S.A.S., Rakuten Kobo Inc. and other cash-generating units, respectively.
In the fiscal year ended December 31, 2016, impairment loss of ¥25,359 million was recognized for other cash-generating units.

Notes on significant subsequent events

No items to report

5. Others

Quarterly Consolidated Statements of Income
(For the three months ended December 31, 2015 and 2016)

(Millions of yen)

	Three months ended December 31, 2015 (October 1 to December 31, 2015)	Three months ended December 31, 2016 (October 1 to December 31, 2016)
Continuing Operations		
Revenue	198,844	222,559
Operating expenses	169,010	195,113
Other income	22,550	1,696
Other expenses	2,518	2,024
Impairment loss	38,135	24,344
Operating income	11,731	2,774
Financial income	21	39
Financial expenses	878	778
Share of income (loss) of associates and joint ventures	251	(384)
Income before income tax	11,125	1,651
Income tax expense	9,382	7,608
Net income (loss)	1,743	(5,957)
Net income attributable to:		
Owners of the parent company	1,781	(5,947)
Non-controlling interests	(38)	(10)
Net income (loss)	1,743	(5,957)

(Yen)

Earnings (losses) per share attributable to owners of the parent company		
Basic	1.25	(4.17)
Diluted	1.24	-

Segment Information (For the three months)

For the three months ended December 31, 2015 (October 1 to December 31, 2015)

(Millions of Yen)

	Internet Services	FinTech	Total	Adjustments	Amount reported on consolidated financial statements
Segment Revenue	144,702	70,760	215,462	(16,618)	198,844
Segment Profit	38,837	15,960	54,797	(43,066)	11,731

For the three months ended December 31, 2016 (October 1 to December 31, 2016)

(Millions of Yen)

	Internet Services	FinTech	Total	Adjustments	Amount reported on Consolidated financial statements
Segment Revenue	165,829	77,276	243,105	(20,546)	222,559
Segment Profit	15,188	16,421	31,609	(28,835)	2,774

Breakdown of operating expenses

(Millions of Yen)

	Three months ended December 31, 2015 (October 1 to December 31, 2015)	Three months ended December 31, 2016 (October 1 to December 31, 2016)
Advertising and promotion expenditures	31,199	38,546
Employee benefits expenses	35,287	37,057
Depreciation and amortization	10,655	11,322
Communication and maintenance expenses	5,019	5,198
Consignment and subcontract expenses	9,805	10,917
Allowance for doubtful accounts charged to expenses	5,541	6,883
Cost of sales of merchandise and service revenue	43,037	52,144
Interest expense for finance business	1,638	1,322
Commission expense for finance business	2,046	2,354
Insurance claims and other payments, and provision of policy reserves and others for insurance business	4,221	4,056
Others	20,562	25,314
Total	169,010	195,113

(Other Income)

(Millions of Yen)

	Three months ended December 31, 2015 (October 1 to December 31, 2015)	Three months ended December 31, 2016 (October 1 to December 31, 2016)
Valuation gains on securities	22,016	807
Others	534	889
Total	22,550	1,696

(Impairment Loss)

(Millions of Yen)

	Three months ended December 31, 2015 (October 1 to December 31, 2015)	Three months ended December 31, 2016 (October 1 to December 31, 2016)
Impairment Loss of Goodwill etc.	38,135	24,344
Total	38,135	24,344

Note: In the fourth quarter ended December 31, 2015, impairment loss of ¥17,247 million, ¥7,808 million and ¥13,080 million were recognized for PRICEMINISTER S.A.S., Rakuten Kobo Inc. and other cash-generating units, respectively.
In the fourth quarter ended December 31, 2016, impairment loss of ¥24,344 million was recognized for other cash-generating units.