

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 three months ended March 31, 2021

Rakuten Group, Inc.
May 13, 2021

Company name Rakuten Group, Inc. Listed Tokyo Stock Exchange
 Code No 4755 URL <https://global.rakuten.com/corp/>
 Representative (Title) Chairman and CEO (Name) Hiroshi Mikitani
 Contact person (Title) CFO (Name) Kenji Hirose
 Supplementary materials for financial results: Yes
 Financial results information meeting held: Yes (For institutional investors and analysts)

1. Consolidated Results for the three months ended March 31, 2021 (January 1 – March 31, 2021)

(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	%
Three months ended March 31, 2021	391,513	18.1	(37,340)	—	(17,875)	—	(25,582)	—
Three months ended March 31, 2020	331,443	18.2	(24,054)	—	(35,850)	—	(35,400)	—

	Net income attributable to owners of the Company		Comprehensive income		Basic earnings per share attributable to owners of the Company	Diluted earnings per share attributable to owners of the Company
	Millions of Yen	%	Millions of Yen	%	Yen	Yen
Three months ended March 31, 2021	(25,143)	—	14,354	—	(18.37)	(18.37)
Three months ended March 31, 2020	(35,319)	—	(50,749)	—	(26.03)	(26.03)

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to owners of the Company	Ratio of total equity attributable to owners of the Company to total assets
	Millions of Yen	Millions of Yen	Millions of Yen	%
As of March 31, 2021	13,495,164	882,906	861,147	6.4
As of December 31, 2020	12,524,438	629,014	608,738	4.9

2. Dividends

	Dividend per Share				
	1Q	2Q	3Q	4Q	Year
	Yen	Yen	Yen	Yen	Yen
FY2020	—	0.00	—	4.50	4.50
FY2021	—	—	—	—	—
FY2021 (Forecast)	—	—	—	—	—

Note: Dividend per share for the fiscal year ending December 31, 2021 has not been decided yet, and there are no changes to the previously disclosed dividend forecast.

3. Estimate of Consolidated Operating Results for Fiscal Year 2021 (January 1 to December 31, 2021)

For the estimate of consolidated operating results for fiscal year 2021, double-digit growth on consolidated operating results for fiscal year 2020 is estimated for fiscal year 2021 consolidated revenue, excluding the securities business whose results are heavily impacted by stock market conditions.

For details, see page 8, 1. Qualitative Information, Financial Statements, etc. (3) Qualitative Information about Consolidated Business Forecasts.

Note: There are no changes to the previously disclosed consolidated forecasts for the year ending December 31, 2021.

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 period (including treasury stocks)
 - 1,575,770,100 shares (As of March 31, 2021)
 - 1,434,573,900 shares (As of December 31, 2020)
2. Number of treasury stocks at the end of the period
 - 87 shares (As of March 31, 2021)
 - 72,073,137 shares (As of December 31, 2020)
3. Average number of shares during the period (cumulative from the beginning of the year)
 - 1,368,993,556 shares (January 1 – March 31, 2021)
 - 1,356,788,236 shares (January 1 – March 31, 2020)

This financial report is not subject to an audit firm's quarterly review.

Explanation about the Appropriate Use of Earnings Forecasts, and Other Special Matters

Consolidated earnings forecasts for the year ending December 31, 2021 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 projections.

1. Qualitative Information, Financial Statements, etc.

(1) Qualitative Information Concerning Consolidated Business Results

The Rakuten Group discloses 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 as prescribed by the Rakuten Group. 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 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 the Rakuten Group believes shall be excluded for the purposes of preparing a 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 share based compensation expenses 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 rules.

i) Business Results for the three months ended March 31, 2021 (Non-GAAP basis)

The world economy during the three months ended March 31, 2021 remains severe due to the spread of COVID-19, but is beginning to recover. Amid measures to prevent the spread of COVID-19, the Japanese economy is also expected to follow in the footsteps of the world economy, mainly due to the effects of various policy measures. On the other hand, trends stemming from the effects of COVID-19 in Japan and elsewhere, along with financial market changes require us to remain vigilant. Against this backdrop, Japan’s Ministry of Health, Labour and Welfare is requesting that people practice a “New Lifestyle” to prevent the spread of COVID-19, including shopping online and utilizing electronic payments. IT companies provide Internet services and online financial services that enable people to purchase products and enjoy services while reducing contact with others, and the social role expected of IT companies is further increasing.

Under such an environment, the Rakuten Group continued to develop businesses that bring together membership, data, and branding, along with the development and operation of services that proactively leverage AI, in addition to working to diversify business risks from the impact of infectious diseases through business management that leverages the Rakuten Ecosystem, which consists of more than 70 diverse services in Japan and overseas.

In the Internet Services segment, the major growth of gross merchandise sales in domestic e-commerce services has continued. Against the backdrop of factors such as the success of unified measures for free shipping thresholds on internet shopping mall “Rakuten Ichiba”, and the impact of stay-at-home consumption amid the COVID-19 pandemic, customers who began using “Rakuten Ichiba” and other services are taking root. In the FinTech segment, the customer base for each service has continued to grow, and revenue and transaction value of credit card shopping showed growth. In the Mobile segment, applications for subscription accelerated due to factors including the expansion of the areas covered under its own network lines and the popular upgrade to “Rakuten UN-LIMIT VI”, with a new rate plan announced in January 2021.

As a result, the Rakuten Group recorded revenue of ¥391,513 million, up 18.1% year-on-year for the three months ended March 31, 2021, but due to ongoing prior investments in the Mobile segment, such as the installment of its own base stations, it recorded Non-GAAP operating losses of ¥31,585 million, compared to Non-GAAP operating income of ¥18,136 million in the three months ended March 31, 2020.

(Non-GAAP)

(Millions of Yen)

	Three months ended March 31, 2020	Three months ended March 31, 2021	Amount Change YoY	% Change YoY
Revenue	331,443	391,513	60,070	18.1%
Non-GAAP operating loss	(18,136)	(31,585)	(13,449)	—%

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

For the three months ended March 31, 2021, amortization of intangible assets of ¥2,590 million and share based compensation expenses of ¥3,165 million were excluded from Non-GAAP operating income.

(Millions of Yen)

	Three months ended March 31, 2020	Three months ended March 31, 2021	Amount Change YoY
Non-GAAP operating loss	(18,136)	(31,585)	(13,449)
Amortization of intangible assets (PPA)	(2,634)	(2,590)	44
Share based compensation expenses	(3,284)	(3,165)	119
IFRS operating loss	(24,054)	(37,340)	(13,286)

iii) Business Results for the three months ended March 31, 2021 (IFRS basis)

For the three months ended March 31, 2021, the Rakuten Group recorded revenue of ¥391,513 million, up 18.1% year-on-year, IFRS operating loss of ¥37,340 million, compared with IFRS operating loss of ¥24,054 million in the three months ended March 31, 2020, and net loss attributable to owners of the Company of ¥25,143 million, compared with net loss of ¥35,319 million in the three months ended March 31, 2020.

(IFRS)

(Millions of Yen)

	Three months ended March 31, 2020	Three months ended March 31, 2021	Amount Change YoY	% Change YoY
Revenue	331,443	391,513	60,070	18.1%
IFRS operating loss	(24,054)	(37,340)	(13,286)	—%
Net loss attributable to owners of the Company	(35,319)	(25,143)	10,176	—%

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.

To enhance collaboration and synergy between digital content services and mobile services, some businesses and subsidiaries have been transferred to other segments from the fourth quarter ended December 31, 2020. The main change was made to businesses that operate digital content sites, including Rakuten Kobo Inc. in the Internet Services segment, which were transferred to the Mobile segment. Segment information for the three months ended March 31, 2020 has been restated accordingly.

Internet Services

In domestic e-commerce services, the mainstay of Internet services, the Rakuten Group is aiming for further growth in gross merchandise sales and revenues by working on various initiatives, including sales promotion activities to cultivate loyal customers and win new customers, promotion of cross-use of services, and further opening up the Rakuten Ecosystem. The Rakuten Group worked to mitigate the medium- to long-term impact of volume limits and increases in shipping fees and enhanced the convenience of both customers and merchants who use Rakuten services by carrying out reinforcement of its logistics network and introducing a unified free shipping threshold. These efforts included increasing capacity of the Rakuten Group's logistics facilities to accept products for stores on the Rakuten marketplace and expanding the last mile delivery area covered by the Rakuten Group based on the "One Delivery" concept of providing comprehensive logistics services. Services such as the Internet shopping mall "Rakuten Ichiba" and "Rakuten 24", which sells medical supplies and daily necessities, etc. by mail order, have continued to see growth in transaction volume with customers taking root due to the success of these measures as well as increased demand for online shopping following the growth in so-called "stay-at-home consumption". On the other hand, the online travel booking service, Rakuten Travel, was affected by a continuing slump in hotel reservations due to the impact of the suspension of the "Go To Travel" program as well as a state of emergency declared successively in various regions following the resurgence of COVID-19. However, operating income increased year-on-year mainly as a result of measures to reexamine cost. In overseas Internet services, the Rakuten Group has continued to work on efforts to raise the profile of the brand and expand business. In addition, the Rakuten Group recorded ¥30,603 million in valuation gains on securities related to investments in FinTech-related companies in the investment business.

As a result, revenue for the Internet Services segment rose to ¥212,117 million, a 17.6% year-on-year increase, while segment profit stood at ¥41,208 million, compared with segment profit of ¥334 million the three months ended March 31, 2020.

(Millions of Yen)

	Three months ended March 31, 2020	Three months ended March 31, 2021	Amount Change YoY	% Change YoY
Segment revenue	180,387	212,117	31,730	17.6%
Segment profit	334	41,208	40,874	—%

FinTech

In credit card related services, Rakuten Card's membership base continued to expand, and the number of its members topped 22 million in the three months ended March 31, 2021. While consumption remains constrained in lodging and dining services, the growth in transaction volume mainly in online shopping contributed to increases in revenue and profit. In banking services as well, new acquisitions of bank accounts accelerated and the total number of accounts exceeded 10 million in January 2021, which is the first for an online bank in Japan (Note), leading to increased income from service transactions, etc. and contributing to revenue growth. Similarly, in securities services as well, new openings of accounts continued to accelerate, and at the same time, domestic and overseas shares trading commissions rose. The resulting increase in commission earnings mainly contributed to higher revenue and profit.

As a result, the FinTech segment recorded ¥151,572 million in revenue, an 8.2% year-on-year increase, while segment profit stood at ¥24,550 million, a 23.8% year-on-year increase.

(Note) As of January 19, 2021, based on research by Rakuten Bank

(Millions of Yen)

	Three months ended March 31, 2020	Three months ended March 31, 2021	Amount Change YoY	% Change YoY
Segment revenue	140,038	151,572	11,534	8.2%
Segment profit	19,826	24,550	4,724	23.8%

Mobile

In mobile services, the Rakuten Group accelerated the installment of base stations, and the areas covered under its own network lines were expanded. Furthermore, applications for subscription accelerated due to factors including the popular upgrade to "Rakuten UN-LIMIT VI", with a new rate plan and simple fee structure that flexibly adjusts in line with a user's data use, which was announced in January 2021. The digital contents services, which includes e-book and video streaming services, continues to expand its customer base, fueled by expanding demand for online content services amid the COVID-19 crisis in particular.

As a result, revenue for the Mobile segment rose to ¥68,631 million, a 38.6% year-on-year increase, but segment losses reached ¥97,245 million, compared to losses of ¥36,593 million in the three months ended March 31, 2020, as prior investments continued mainly for the installment of the Rakuten Group's own base stations in the mobile business.

(Millions of Yen)

	Three months ended March 31, 2020	Three months ended March 31, 2021	Amount Change YoY	% Change YoY
Segment revenue	49,524	68,631	19,107	38.6%
Segment loss	(36,593)	(97,245)	(60,652)	—%

(2) Analysis Concerning Financial Position

i) Assets, Liabilities, and Equity

During the three months ended March 31, 2021, in order to use the proceeds for investment and loan funds to Rakuten Mobile, Inc., a consolidated subsidiary of the Company, the Company has issued new shares and also sold treasury stock through a third-party allotment. The amount of proceeds raised was ¥242,347 million, with payment dates on March 29, 2021 and March 31, 2021.

Assets

Total assets as of March 31, 2021 amounted to ¥13,495,164 million, an increase of ¥970,726 million from ¥12,524,438 million at the end of the previous fiscal year. The primary factors were an increase of ¥444,410 million in loans for banking business, an increase of ¥208,981 million in cash and cash equivalents following the issuance of new shares and sales of treasury stock through a third-party allotment, an increase of ¥167,148 million in financial assets for securities business, and an increase of ¥106,147 million in investment securities due to an increase in fair value of certain investment securities.

Liabilities

Total liabilities as of March 31, 2021 amounted to ¥12,612,258 million, an increase of ¥716,834 million from ¥11,895,424 million at the end of the previous fiscal year. The primary factors include an increase of ¥441,598 million in deposits for banking business, an increase of ¥201,149 million in financial liabilities for securities business, and an increase of ¥86,596 million in bonds and borrowings.

Equity

Total equity as of March 31, 2021 was ¥882,906 million, an increase of ¥253,892 million from ¥629,014 million at the end of the previous fiscal year. The primary factors include a decrease of ¥30,962 million in retained earnings due mainly to the recording of ¥25,143 million in net loss attributable to owners of the Company during the three months ended March 31, 2021, offset by increases of ¥80,721 million in common stock and ¥79,831 million in capital surplus, etc. and a decrease of ¥84,941 million in treasury stock due to the issuance of new shares and sales of treasury stock through a third-party allotment. In addition, other components of equity has increased by ¥37,878 million due to depreciation of the yen etc.

ii) Cash Flows

Cash and cash equivalents as of March 31, 2021 stood at ¥3,230,287 million, an increase of ¥208,981 million from the end of the previous fiscal year. Cash flow conditions and their main factors for the three months ended March 31, 2021 are as follows.

Net Cash Flows from Operating Activities

Net cash flows from operating activities for the three months ended March 31, 2021 resulted in a cash inflow of ¥12,959 million (compared with a cash inflow of ¥143,801 million for the same period of the previous fiscal year). Main factors included a cash outflow of ¥444,409 million due to an increase in loans for banking business and a cash outflow of ¥166,801 million due to an increase in financial assets for securities business, offset by a cash inflow of ¥441,398 million due to an increase in deposits for banking business and a cash inflow of ¥200,760 million due to an increase in financial liabilities for securities business.

Net Cash Flows from Investing Activities

Net cash flows from investing activities for the three months ended March 31, 2021 resulted in a cash outflow of ¥119,995 million (compared with a cash outflow of ¥83,272 million for the same period of the previous fiscal year). Main factors included a net cash inflow of ¥4,517 million due to purchases and sales, etc. of investment securities for banking business (a cash outflow of ¥111,753 million due to purchase of investment securities and a cash inflow of ¥107,236 million due to sales and redemption of investment securities), a cash outflow of ¥71,197 million due to purchase of property, plant and equipment, and a cash outflow of ¥25,692 million due to purchase of intangible assets.

Net Cash Flows from Financing Activities

Net cash flows from financing activities for the three months ended March 31, 2021 resulted in a cash inflow of ¥307,569 million (compared with a cash inflow of ¥159,134 million for the same period of the previous fiscal year). Main factors included a cash outflow of ¥45,859 million due to repayments of long-term borrowings, offset by a cash inflow of ¥241,385 million due to proceeds from issuance of shares and sales of treasury stock, and a cash inflow of ¥136,975 million proceeds from long-term borrowings.

(3) Qualitative Information about Consolidated Business Forecasts

Currently, for the forecast of consolidated operating results for fiscal year 2021, the Rakuten Group aims at double-digit growth from the previous fiscal year for consolidated revenue, excluding results from the securities business which are impacted substantially by the stock market. However, there is a possibility that some businesses may experience a decrease in revenue due to the impact of the voluntary restraint on outings in response to COVID-19.

The outlook for each segment for the current fiscal year is as follows.

Internet Services

In the area of domestic Internet services including e-commerce, the Rakuten Group will continue to aim for further growth in gross transaction value and revenue by pursuing various initiatives, such as cultivating a loyal customer base, winning new customers, promoting cross-use of services, and further opening up the Rakuten Ecosystem with a view to expanding the e-commerce platform, while creating new markets through the use of technologies such as data and AI. In the travel booking service “Rakuten Travel”, while recovery is expected predominantly in domestic travel, developments such as the continued suspension of the “Go To Travel” program, and a state of emergency declared in some regions in January and April 2021, intensify the sense of uncertainty about the future. Depending on future impact of COVID-19, revenue and profit may decline. In overseas Internet services, we aim to expand the Rakuten Ecosystem's membership base, raise the profile of the brand, and provide new value to users. Furthermore, as announced on April 28, 2021, the Company plans to have its logistics business succeeded by a joint venture with Japan Post Co., Ltd. The successor company, JP Rakuten Logistics, LLC., is scheduled to become an associate accounted for using equity method of the Company from the third quarter ending September 30, 2021.

FinTech

In credit card related services, we will continue striving to achieve further growth in shopping transaction value by strengthening marketing initiatives aimed at expanding market share and synergy. In banking services, we will work on measures to promote use as a primary bank account, such as the use of the bank account for depositing salaries, in addition to the acquisition of new accounts. In insurance services, we will aim for further growth through increasing the number of new policies and expanding our products that have a high level of affinity with Internet services. It is difficult to make a forecast for securities services due to the substantial impact of share market conditions.

Mobile

In mobile services, revenue is expected to be recorded gradually as we are providing a new campaign offering three months of free telecommunication charges for new users, despite the campaigns offering one year of free telecommunication charges starting to expire from April 2021. Furthermore, we are promoting the development of our base stations nationwide under plans to establish specified base stations for spreading fourth-generation mobile communication systems and introducing fifth-generation mobile communications systems, which were certified by the Minister of Internal Affairs and Communications in April 2018 and April 2019, respectively, thereby expanding the in-house network area ahead of schedule. As a result of these efforts, we expect to incur some more operating expenses including depreciation. The installment of base stations in areas that exclude the metropolitan centers of Tokyo, Nagoya, and Osaka associated with the plan to establish specified base stations for spreading fifth-generation mobile communication systems, which was certified in April 2021, is expected to commence primarily from the fiscal year ending December 31, 2022.

2. Consolidated Financial Statements (Summary)
(1) Consolidated Statements of Financial Position (Summary)

(Millions of Yen)

	As of December 31, 2020	As of March 31, 2021
Assets		
Cash and cash equivalents	3,021,306	3,230,287
Accounts receivable – trade	243,886	219,515
Financial assets for securities business	2,673,229	2,840,377
Loans for credit card business	2,033,013	1,956,092
Investment securities for banking business	266,227	270,390
Loans for banking business	1,436,513	1,880,923
Investment securities for insurance business	283,969	300,599
Derivative assets	32,644	38,909
Investment securities	275,236	381,383
Other financial assets	492,686	472,234
Investments in associates and joint ventures	58,072	89,704
Property, plant and equipment	684,110	775,274
Intangible assets	639,589	662,878
Deferred tax assets	126,203	123,927
Other assets	257,755	252,672
Total assets	12,524,438	13,495,164
Liabilities		
Accounts payable – trade	337,427	289,340
Deposits for banking business	4,716,162	5,157,760
Financial liabilities for securities business	2,587,227	2,788,376
Derivative liabilities	78,318	145,900
Bonds and borrowings	2,487,457	2,574,053
Other financial liabilities	1,131,505	1,073,229
Income tax payable	8,700	6,518
Provisions	162,579	166,917
Insurance business policy reserves	285,336	277,647
Employee retirement benefit liabilities	19,272	21,415
Deferred tax liabilities	1,920	1,864
Other liabilities	79,521	109,239
Total liabilities	11,895,424	12,612,258
Equity		
Equity attributable to owners of the Company		
Common stock	205,924	286,645
Capital surplus	227,844	307,675
Retained earnings	290,449	259,487
Treasury stock	(84,941)	(0)
Other components of equity	(30,538)	7,340
Total equity attributable to owners of the Company	608,738	861,147
Non-controlling interests	20,276	21,759
Total equity	629,014	882,906
Total liabilities and equity	12,524,438	13,495,164

(2) Consolidated Statements of Income and Comprehensive Income (Summary)

Consolidated Statements of Income (Summary)

(For the three months ended March 31, 2020 and 2021)

(Millions of Yen)

	Three months ended March 31, 2020 (January 1 to March 31, 2020)	Three months ended March 31, 2021 (January 1 to March 31, 2021)
Continuing Operations		
Revenue	331,443	391,513
Operating expenses	351,115	458,079
Other income	1,024	33,308
Other expenses	5,406	4,082
Operating loss	(24,054)	(37,340)
Financial income	266	61,237
Financial expenses	4,444	59,356
Share of losses (gains) of investments in associates and joint ventures	(7,618)	17,584
Loss before income tax	(35,850)	(17,875)
Income tax expense	(450)	7,707
Net loss	(35,400)	(25,582)
Net loss attributable to:		
Owners of the Company	(35,319)	(25,143)
Non-controlling interests	(81)	(439)
Net loss	(35,400)	(25,582)
(Yen)		
Losses per share attributable to owners of the Company		
Basic	(26.03)	(18.37)
Diluted	(26.03)	(18.37)

Consolidated Statements of Comprehensive Income (Summary)
(For the three months ended March 31, 2020 and 2021)

(Millions of Yen)

	Three months ended March 31, 2020 (January 1 to March 31, 2020)	Three months ended March 31, 2021 (January 1 to March 31, 2021)
Net loss	(35,400)	(25,582)
Other comprehensive income		
Items that will not be reclassified to net income		
Gains (Losses) on equity instruments measured at fair value through other comprehensive income	(17,023)	309
Income tax effect of gains or losses on equity instruments measured at fair value through other comprehensive income	4,777	(1,303)
Remeasurement of insurance business policy reserves based on current market interest rates	174	366
Income tax effect of remeasurement of insurance business policy reserves based on current market interest rates	(49)	(203)
Remeasurement of defined benefit plans	1	(1)
Income tax effect of remeasurement of defined benefit plans	4	1
Other comprehensive income of investments in associates and joint ventures	(24)	(2)
Total items that will not be reclassified to net income	(12,140)	(833)
Items that may be reclassified to net income		
Foreign currency translation adjustments	(5,785)	39,332
Reclassification of foreign currency translation adjustments due to disposal of foreign operating businesses	(217)	—
Corporate income tax on foreign currency translation adjustments	53	—
Losses on debt instruments measured at fair value through other comprehensive income	(143)	(1,546)
Allowances for doubtful debts on debt instruments measured at fair value through other comprehensive income	34	2
Losses on debt instruments measured at fair value through other comprehensive income reclassified from other comprehensive income to net income	(69)	(43)
Income tax effect of gains or losses on debt instruments measured at fair value through other comprehensive income	52	453
Gains on cash flow hedges recognized in other comprehensive income	3,275	5,016
Income tax effect of gains or losses on cash flow hedges recognized in other comprehensive income	(1,006)	(1,469)
Gains (Losses) on cash flow hedges reclassified from other comprehensive income to net income	(166)	(5,365)
Income tax effect of gains or losses on cash flow hedges reclassified from other comprehensive income to net income	139	1,501
Other comprehensive income of investments in associates and joint ventures	624	2,888
Total items that may be reclassified to net income	(3,209)	40,769
Other comprehensive income, net of tax	(15,349)	39,936
Comprehensive income	(50,749)	14,354

Consolidated Statements of Comprehensive Income
(For the three months ended March 31, 2020 and 2021) (Continued)

(Millions of Yen)

	Three months ended March 31, 2020 (January 1 to March 31, 2020)	Three months ended March 31, 2021 (January 1 to March 31, 2021)
Comprehensive income attributable to:		
Owners of the Company	(50,660)	13,732
Non-controlling interests	(89)	622
Comprehensive income	<u>(50,749)</u>	<u>14,354</u>

(3) Consolidated Statements of Changes in Equity (Summary)

(Millions of Yen)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Other Components of Equity		
					Foreign Currency Translation Adjustments	Financial Instruments measured at Fair Value through Other Comprehensive Income	
As of January 1, 2020	205,924	224,379	413,603	(92,305)	(15,892)	9,669	
Comprehensive income							
Net loss	—	—	(35,319)	—	—	—	
Other comprehensive income, net of tax	—	—	—	—	(5,324)	(12,390)	
Total comprehensive income	—	—	(35,319)	—	(5,324)	(12,390)	
Transactions with owners							
Contributions by and distributions to owners							
Issuance of shares	—	—	—	—	—	—	
Cash dividends paid	—	—	(6,103)	—	—	—	
Reclassified from other components of equity to retained earnings	—	—	(146)	—	—	146	
Acquisition of treasury stock	—	—	—	—	—	—	
Sales of treasury stock	—	—	—	—	—	—	
Disposal of treasury stock with the exercise of share options	—	(1,452)	—	1,453	—	—	
Issuance of share acquisition rights	—	3,339	—	—	—	—	
Forfeiture of share acquisition rights	—	(24)	24	—	—	—	
Others	—	—	(201)	—	—	—	
Total contributions by and distributions to owners	—	1,863	(6,426)	1,453	—	146	
Changes in ownership interests in subsidiaries							
Issuance of shares	—	—	—	—	—	—	
Others	—	6	—	—	—	—	
Total changes in ownership interests in subsidiaries	—	6	—	—	—	—	
Total transactions with owners	—	1,869	(6,426)	1,453	—	146	
As of March 31, 2020	205,924	226,248	371,858	(90,852)	(21,216)	(2,575)	
	Other components of equity						
	Cash Flow Hedges	Remeasurement of Insurance Business Policy Reserves based on Current Market Interest Rates	Remeasurement of Retirement Benefit Plans	Total Other Components of Equity	Total Equity attributable to Owners of the Company	Non-controlling Interests	Total Equity
As of January 1, 2020	(1,219)	(7,559)	(928)	(15,929)	735,672	1,528	737,200
Comprehensive income							
Net loss	—	—	—	—	(35,319)	(81)	(35,400)
Other comprehensive income, net of tax	2,243	125	5	(15,341)	(15,341)	(8)	(15,349)
Total comprehensive income	2,243	125	5	(15,341)	(50,660)	(89)	(50,749)
Transactions with owners							
Contributions by and distributions to owners							
Issuance of shares	—	—	—	—	—	—	—
Cash dividends paid	—	—	—	—	(6,103)	—	(6,103)
Reclassified from other components of equity to retained earnings	—	—	—	146	—	—	—
Acquisition of treasury stock	—	—	—	—	—	—	—
Sales of treasury stock	—	—	—	—	—	—	—
Disposal of treasury stock with the exercise of share options	—	—	—	—	1	—	1
Issuance of share acquisition rights	—	—	—	—	3,339	—	3,339
Forfeiture of share acquisition rights	—	—	—	—	—	—	—
Others	—	—	—	—	(201)	—	(201)
Total contributions by and distributions to owners	—	—	—	146	(2,964)	—	(2,964)
Changes in ownership interests in subsidiaries							
Issuance of shares	—	—	—	—	—	—	—
Others	—	—	—	—	6	37	43
Total changes in ownership interests in subsidiaries	—	—	—	—	6	37	43
Total transactions with owners	—	—	—	146	(2,958)	37	(2,921)
As of March 31, 2020	1,024	(7,434)	(923)	(31,124)	682,054	1,476	683,530

(3) Consolidated Statements of Changes in Equity (Summary) (Continued)

(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	
As of January 1, 2021	205,924	227,844	290,449	(84,941)	(22,698)	(1,230)	
Comprehensive income							
Net loss	—	—	(25,143)	—	—	—	
Other comprehensive income, net of tax	—	—	—	—	41,161	(2,132)	
Total comprehensive income	—	—	(25,143)	—	41,161	(2,132)	
Transactions with owners							
Contributions by and distributions to owners							
Issuance of shares	80,721	78,317	—	—	—	—	
Cash dividends paid	—	—	(6,131)	—	—	—	
Reclassified from other components of equity to retained earnings	—	—	997	—	—	(997)	
Acquisition of treasury stock	—	—	—	(0)	—	—	
Sales of treasury stock	—	(2,412)	—	84,759	—	—	
Disposal of treasury stock with the exercise of share options	—	(182)	—	182	—	—	
Issuance of share acquisition rights	—	3,325	—	—	—	—	
Forfeiture of share acquisition rights	—	(26)	26	—	—	—	
Others	—	809	(711)	—	—	—	
Total contributions by and distributions to owners	80,721	79,831	(5,819)	84,941	—	(997)	
Changes in ownership interests in subsidiaries							
Issuance of shares	—	—	—	—	—	—	
Others	—	—	—	—	—	—	
Total changes in ownership interests in subsidiaries	—	—	—	—	—	—	
Total transactions with owners	80,721	79,831	(5,819)	84,941	—	(997)	
As of March 31, 2021	286,645	307,675	259,487	(0)	18,463	(4,359)	
	Other components of equity						
	Cash Flow Hedges	Remeasurement of Insurance Business Policy Reserves based on Current Market Interest Rates	Remeasurement of Retirement Benefit Plans	Total Other Components of Equity	Total Equity attributable to Owners of the Company	Non-controlling Interests	Total Equity
As of January 1, 2021	939	(5,626)	(1,923)	(30,538)	608,738	20,276	629,014
Comprehensive income							
Net loss	—	—	—	—	(25,143)	(439)	(25,582)
Other comprehensive income, net of tax	(317)	163	0	38,875	38,875	1,061	39,936
Total comprehensive income	(317)	163	0	38,875	13,732	622	14,354
Transactions with owners							
Contributions by and distributions to owners							
Issuance of shares	—	—	—	—	159,038	—	159,038
Cash dividends paid	—	—	—	—	(6,131)	—	(6,131)
Reclassified from other components of equity to retained earnings	—	—	—	(997)	—	—	—
Acquisition of treasury stock	—	—	—	—	(0)	—	(0)
Sales of treasury stock	—	—	—	—	82,347	—	82,347
Disposal of treasury stock with the exercise of share options	—	—	—	—	—	—	—
Issuance of share acquisition rights	—	—	—	—	3,325	—	3,325
Forfeiture of share acquisition rights	—	—	—	—	—	—	—
Others	—	—	—	—	98	—	98
Total contributions by and distributions to owners	—	—	—	(997)	238,677	—	238,677
Changes in ownership interests in subsidiaries							
Issuance of shares	—	—	—	—	—	861	861
Others	—	—	—	—	—	—	—
Total changes in ownership interests in subsidiaries	—	—	—	—	—	861	861
Total transactions with owners	—	—	—	(997)	238,677	861	239,538
As of March 31, 2021	622	(5,463)	(1,923)	7,340	861,147	21,759	882,906

(4) Consolidated Statements of Cash Flows (Summary)

(Millions of Yen)

	Three months ended March 31, 2020 (January 1 to March 31, 2020)	Three months ended March 31, 2021 (January 1 to March 31, 2021)
Cash flows from operating activities		
Loss before income tax	(35,850)	(17,875)
Depreciation and amortization	33,569	45,496
Other loss (income)	18,978	(105,325)
Decrease (Increase) in operating receivables	40,871	31,659
Decrease (Increase) in loans for credit card business	91,776	77,431
Increase (Decrease) in deposits for banking business	93,325	441,398
Net decrease (increase) in call loans for banking business	15,000	—
Decrease (Increase) in loans for banking business	(51,082)	(444,409)
Increase (Decrease) in operating payables	(66,468)	(52,962)
Decrease (Increase) in financial assets for securities business	(121,196)	(166,801)
Increase (Decrease) in financial liabilities for securities business	191,238	200,760
Increase and decrease in derivative assets and liabilities	(327)	51,162
Others	(58,841)	(39,373)
Income tax paid	(7,192)	(8,202)
Net cash flows from operating activities	143,801	12,959
Cash flows from investing activities		
Payments in time deposits	(4,225)	(5,811)
Proceeds from time deposits	6,105	4,721
Purchases of property, plant and equipment	(69,688)	(71,197)
Purchases of intangible assets	(21,263)	(25,692)
Acquisitions of subsidiaries	(4,714)	(271)
Acquisitions of investments in associates and joint ventures	(8,542)	(9,692)
Purchases of investment securities for banking business	(112,283)	(111,753)
Proceeds from sales and redemption of investment securities for banking business	127,618	107,236
Purchases of investment securities for insurance business	(43,881)	(3,109)
Proceeds from sales and redemption of investment securities for insurance business	26,561	2,983
Purchases of investment securities	(3,816)	(3,604)
Proceeds from sales and redemption of investment securities	22,866	2,606
Other payments	(5,150)	(10,659)
Other proceeds	7,140	4,247
Net cash flows from investing activities	(83,272)	(119,995)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	97,459	(41,502)
Net increase (decrease) in commercial papers	57,600	30,000
Proceeds from long-term borrowings	110,000	136,975
Repayments of long-term borrowings	(92,808)	(45,859)
Proceeds from issuance of shares	—	159,038
Proceeds from sales of treasury stock	0	82,347
Repayments of lease liabilities	(6,915)	(10,868)
Cash dividends paid	(6,103)	(6,131)
Others	(99)	3,569
Net cash flows from financing activities	159,134	307,569
Effect of change in exchange rates on cash and cash equivalents	(895)	8,448
Net increase (decrease) in cash and cash equivalents	218,768	208,981
Cash and cash equivalents at the beginning of the period	1,478,557	3,021,306
Cash and cash equivalents at the end of the period	1,697,325	3,230,287

(5) Assumptions for Going Concern for the three months ended March 31, 2021

No items to report

(6) Notes to the Summary of Consolidated Financial Statements for the three months ended March 31, 2021

(Basis of Presentation)

The Rakuten Group's summary of consolidated financial statements for the three months ended March 31, 2021 meets the requirements set out under Article 1-2 of the Rules on Terminology, Formats and Compilation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Ordinance No. 64 of 2007; hereinafter referred to as the "Rules on Quarterly Consolidated Financial Statements") under which the Rakuten Group is qualified as a "Specified Company under the Designated International Accounting Standards" and duly prepares such summary in accordance with IAS 34 "Interim Financial Reporting" under the provision of Article 93 of the Rules on Quarterly Consolidated Financial Statements. As this summary does not contain all the information required in annual consolidated statements, it is advised to be used in combination with the consolidated financial statements for the fiscal year ended December 31, 2020.

(Significant Changes in the Scope of Consolidation and the Scope of Equity Method Application)

Except for the following, there were no significant changes neither in the scope of consolidation nor in the scope of equity method with respect to the summary of consolidated financial statements for the three months ended March, 2021, as compared with the consolidated financial statements for the fiscal year ended December 31, 2020.

The equity method is applied to the investments in SY Holdings Co., Ltd. since March 1, 2021, due to acquisitions of its shares.

(Significant Accounting Policies)

Significant accounting policies adopted by the Rakuten Group in this summary of consolidated financial statements for the three months ended March 31, 2021 basically remain the same as those adopted in the consolidated financial statements for the previous fiscal year. In addition, income tax expenses for the three months ended March 31, 2021 are calculated based upon an estimated annual effective tax rate.

(Significant Accounting Estimates and Judgments)

Preparation of the summary of consolidated financial statements under IFRS for the three months ended March 31, 2021 involves accounting estimates in respect of certain significant matters. In the process of adopting accounting policies, management of the Rakuten Group is required to make its own judgments. Resulting accounting estimates by their nature may be different from the actual outcome.

Accounting estimates and accounting assumptions are subject to continuous review. If the accounting estimates are updated, its effect of changes are recognized in the reporting period as well as future accounting periods.

Estimates and judgments that have significant impact on the amounts in the consolidated financial statements for the three months ended March 31, 2021 remain the same as those for the previous fiscal year.

We face uncertainties stemming from deteriorating economic conditions caused by the COVID-19 pandemic, including sluggish consumer spending and increases in the unemployment rate and corporate bankruptcies. But their impact on the Company's management is limited, even in the actual business results since the first quarter ended March 31, 2020, when signs of worsening economic activity began to appear following the spread of the COVID-19, as the Rakuten Group provides more than 70 services in a wide range of fields.

Although the spread of COVID-19 will still be a business risk for the Company, the Rakuten Group considers strategies to grow each business with flexible changes to their business model. Therefore, the pandemic has not resulted in changes in accounting estimates and judgments that would have an overall material impact on the summary of consolidated financial statements for the three months ended March 31, 2021 at this time, except for the accounting estimate for the allowance for doubtful accounts related to the credit card business loans as mentioned below.

Although there has been no significant deterioration in collection of loans provided as part of credit card business as of March 31, 2021, the accounting estimate of allowance for doubtful accounts has been adjusted as necessary to prepare for deteriorating credit risk and possible incurrence of losses in light of uncertainties based on the future spread of COVID-19.

If the COVID-19 expansion radically changes and uncertainty further increases, however, it could affect significant accounting estimates and judgments, such as the recoverability of goodwill, the recoverability of deferred tax assets, the impairment of debt instruments, and investments in affiliates.

(Segment Information)

i. General Information

As a global innovation company engaged in the three main activities of Internet Services, FinTech, and Mobile, the Rakuten Group is organized into three reportable segments: “Internet Services”, “FinTech”, and “Mobile”.

For the reportable segments, separate financial information on the operational units of the Rakuten Group is available, and such financial information is subject to periodic review for the Board of Directors to decide on the distribution of management resources and evaluate performance.

The “Internet Services” segment comprises businesses running various e-commerce sites including internet shopping mall “Rakuten Ichiba”, online cash-back sites, travel booking sites, and portal sites, along with sales of advertising, etc. on these sites, and management of professional sports teams, etc.

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

The “Mobile” segment comprises business operations engaged in communication and messaging services and operations including running digital content sites etc.

ii. Measurement of Segment Revenue and Segment Profit (Loss) by Operating Segments

Operating segment information is reported in accordance with IFRS. Operating segment revenue and profit or loss amounts are those before intersegment eliminations, without consideration of consolidation adjustments, except for certain consolidated subsidiaries. The internal measures management relies upon in making decisions are Non-GAAP operating income; operating income in accordance with IFRS adjusted for unusual items and other adjustment items prescribed by the Rakuten Group.

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 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 the Rakuten Group believes shall be excluded for the purposes of preparing a 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 share based compensation expenses and amortization of acquisition-related intangible assets.

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

Three months ended March 31, 2020 (January 1 to March 31, 2020)

(Millions of Yen)

	Internet Services	FinTech	Mobile	Total
Segment revenue	180,387	140,038	49,524	369,949
Segment profit (loss)	334	19,826	(36,593)	(16,433)

Three months ended March 31, 2021 (January 1 to March 31, 2021)

(Millions of Yen)

	Internet Services	FinTech	Mobile	Total
Segment revenue	212,117	151,572	68,631	432,320
Segment profit (loss)	41,208	24,550	(97,245)	(31,487)

Note: To enhance collaboration and synergy between digital content services and mobile services, some businesses and subsidiaries have been transferred to other segments from the fourth quarter ended December 31, 2020. The main change was made to businesses that operate digital content sites, including Rakuten Kobo Inc. in the Internet Services segment, which were transferred to the Mobile segment. Segment information for the three months ended March 31, 2020 has been restated accordingly.

Reconciliation from Segment Revenue to Consolidated Revenue

(Millions of Yen)

	Three months ended March 31, 2020 (January 1 to March 31, 2020)	Three months ended March 31, 2021 (January 1 to March 31, 2021)
Segment revenue	369,949	432,320
Intercompany transactions, etc.	(38,506)	(40,807)
Consolidated revenue	331,443	391,513

Reconciliation from Segment Loss to Loss Before Income Tax

(Millions of Yen)

	Three months ended March 31, 2020 (January 1 to March 31, 2020)	Three months ended March 31, 2021 (January 1 to March 31, 2021)
Segment loss	(16,433)	(31,487)
Intercompany transactions, etc.	(1,703)	(98)
Non-GAAP operating loss	(18,136)	(31,585)
Amortization of intangible assets	(2,634)	(2,590)
Share based compensation expenses	(3,284)	(3,165)
Operating loss	(24,054)	(37,340)
Financial income and expenses	(4,178)	1,881
Share of income (losses) of investments in associates and joint ventures	(7,618)	17,584
Loss before income tax	(35,850)	(17,875)

(Breakdown of Operating Expenses)

(Millions of Yen)

	Three months ended March 31, 2020 (January 1 to March 31, 2020)	Three months ended March 31, 2021 (January 1 to March 31, 2021)
Advertising and promotion expenditures	53,334	81,249
Employee benefits expenses	58,014	64,433
Depreciation and amortization	33,569	45,496
Communication and maintenance expenses	8,607	12,723
Consignment and subcontract expenses	23,396	23,680
Allowance for doubtful accounts charged to expenses	10,778	8,906
Cost of sales of merchandise and services rendered	109,339	159,193
Interest expense for finance business	1,920	2,942
Commission fee expense for finance business	3,541	4,164
Insurance claims and other payments, and provision of insurance business policy reserves	13,026	12,577
Others	35,591	42,716
Total	351,115	458,079

(Other Income)

(Millions of Yen)

	Three months ended March 31, 2020 (January 1 to March 31, 2020)	Three months ended March 31, 2021 (January 1 to March 31, 2021)
Valuation gains on securities (Note)	—	31,317
Others	1,024	1,991
Total	1,024	33,308

Note: During the three months ended March 31, 2021, the Rakuten Group recorded ¥30,603 million in valuation gains on securities related to investments in FinTech-related companies in the investment business.

(Other Expenses)

(Millions of Yen)

	Three months ended March 31, 2020 (January 1 to March 31, 2020)	Three months ended March 31, 2021 (January 1 to March 31, 2021)
Foreign exchange losses	412	1,517
Loss on disposal of property, plant and equipment and intangible assets	115	192
Valuation losses on securities	2,511	—
Impairment loss	682	1,263
Others	1,686	1,110
Total	5,406	4,082

(Share of Income of Investments in Associates and Joint Ventures)

During the first quarter ended March 31, 2021, the Rakuten Group made investments in shares of SY Holdings Co., Ltd., which have been accounted for using the equity method. As a result, the Rakuten Group recorded income of ¥20,513 million in share of income of investments in associates and joint ventures, mainly including a gain from the bargain purchase of SY Holdings Co., Ltd. proportional to the share held by the Rakuten Group, in the Consolidated Statements of Income (Summary) for the three months ended March 31, 2021. Because the measurement of fair values of the identifiable assets and liabilities as of the acquisition date was incomplete and the calculation of the difference with the cost of the investment was unfinished as of March 31, 2021, the gain from the bargain purchase is a provisional amount based on all information available as of the acquisition date. Accordingly, the amount of gain from the bargain purchase may change when the measurement of fair values of identifiable assets and liabilities is completed.

(Notes on Significant Subsequent Events)

(1) Issuance of unsecured corporate bonds with interest deferral clauses (subordinated notes)

On April 22, 2021, the Company issued US dollar-denominated non-call 5-year undated subordinated notes (with an interest deferral clause), Euro-denominated non-call 6-year undated subordinated notes (with an interest deferral clause), and US dollar-denominated non-call 10-year undated subordinated notes (with an interest deferral clause) (hereinafter, collectively, the “Notes”), for the purpose of diversifying financing methods, expanding the investor base, and further enhancing its financial soundness.

Given that the Notes have no fixed redemption date and may be redeemed at the discretion of the Company, in addition to the fact that interest may be deferred at will and other factors, they are classified as equity instruments under IFRS. Accordingly, they will be recorded under “Equity” in the Company’s Consolidated Statements of Financial Position.

The outline of the Notes is as follows:

	US dollar-denominated non-call 5-year undated subordinated notes (with an interest deferral clause)	Euro-denominated non-call 6-year undated subordinated notes (with an interest deferral clause)	US dollar-denominated non-call 10-year undated subordinated notes (with an interest deferral clause)
Issue amount	USD 750 million	EUR 1,000 million	USD 1,000 million
Issue price	100% of face value	100% of face value	100% of face value
Interest rate (%)	Until April 22, 2026, 5.125% per year (fixed interest rate) From April 22, 2026 (including the same day) to April 22, 2046 (not including the same day), the interest rate is the sum of a base reference rate, the initial spread and a step-up interest rate of 0.25%. After April 22, 2046 (including the same day), the interest rate is the sum of a base reference rate plus the initial spread and the 1% step-up interest rate.	Until April 22, 2027, 4.250% per year (fixed interest rate) From April 22, 2027 (including the same day) to April 22, 2047 (not including the same day), the interest rate is the sum of a base reference rate, the initial spread and a step-up interest rate of 0.25%. After April 22, 2047 (including the same day), the interest rate is the sum of a base reference rate plus the initial spread and the 1% step-up interest rate.	Until April 22, 2031, 6.250% per year (fixed interest rate) From April 22, 2031 (including the same day) to April 22, 2051 (not including the same day), the interest rate is the sum of a base reference rate, the initial spread and a step-up interest rate of 0.25%. After April 22, 2051 (including the same day), the interest rate is the sum of a base reference rate plus the initial spread and the 1% step-up interest rate.
Interest payment date	April 22 and October 22 of each year Interest payment may be deferred at will.	April 22 of each year Interest payment may be deferred at will.	April 22 and October 22 of each year Interest payment may be deferred at will.
Maturity date	No fixed redemption date (However, early redemption is possible at the discretion of the Company on the date 5 years after the issue date and each interest payment date thereafter.)	No fixed redemption date (However, early redemption is possible at the discretion of the Company on the date 6 years after the issue date and each interest payment date thereafter.)	No fixed redemption date (However, early redemption is possible at the discretion of the Company on the date 10 years after the issue date and each interest payment date thereafter.)
Collateral	No collateral or guarantee is attached to this bond issue and there is no particular asset set aside for the issue.		
Financial covenants	There is no special financial clause attached.		
Subordination	In the event of liquidation or bankruptcy, etc., the notes shall be subordinated to all senior indebtedness of the Company, rank substantially <i>pari passu</i> with preferred stock of the Company (if preferred stock is issued in the future) and parity obligations of the Company, and be senior to common stock of the Company.		
Listing	Singapore Exchange Securities Trading Limited		

(2) Significant Agreements, etc.

On April 28, 2021, the Company and Japan Post Co., Ltd. (President and CEO: Kazuhide Kinugawa, hereinafter “Japan Post”) have signed an integration contract (hereinafter “Integration Contract”) where the Company and Japan Post agree that the Company establishes JP Rakuten Logistics, LLC. (hereinafter “JP Rakuten Logistics”) as a wholly-owned subsidiary of the Company; undergoes a simplified absorption-type company split (hereinafter the “Company Split”), under which the Company will have its rights and obligations concerning the logistics business (hereinafter, the “Logistics Business”) succeeded to JP Rakuten Logistics; and then both the Company and Japan Post will contribute capital to JP Rakuten Logistics (hereinafter, the “Investment”). On that day, the Company and Japan Post also signed a shareholders agreement (hereinafter the “Shareholders Agreement”) regarding the operation of JP Rakuten Logistics etc.

The company split contract (hereinafter the “Company Split Contract”) of the Company Split is scheduled to be concluded in May 2021, and the Company Split is scheduled to take effect on July 1, 2021. The payment of the Investment is scheduled to be made on July 1, 2021, subsequent to the effect of the Company Split comes into force. As a result, JP Rakuten Logistics is scheduled to become an affiliate under the scope of equity method application from the third quarter ending September 30, 2021 onwards.

1) Purpose and background

With the aim of enhancing operational efficiency through establishing a cooperative framework mainly in the logistics field, such as a shared distribution base, common delivery system, and receiving services, the Company and Japan Post came to an agreement to co-invest in the establishment of a new company. We will strengthen cooperation between the Company and Japan Post to construct a new DX logistics platform, and encourage other e-commerce and logistics business operators to join the platform in order to contribute to building a healthy logistics environment within the operation network and realizing a sustainable society.

2) Overview of the subsidiary to be established

Resolution by the Board of Directors (the Company): April 28, 2021

Date of establishment of the subsidiary: May 2021 (scheduled)

Corporate name: JP Rakuten Logistics, LLC.

(The subsidiary is scheduled to be re-named as JP Rakuten Logistics, Inc. on July 2, 2021 by organization change after the Investment.)

Main line of Business: Logistics Business

Capital: (Before the Investment) ¥3 million; (After the Investment) ¥100 million

Ownership ratio: (Before the Investment) the Company 100%; (After the Investment) Japan Post 50.1%, the Company 49.9%

3) Overview of the Company Split

Resolution of the Board of Directors (the Company): April 28, 2021

Date of conclusion of the Company Split Contract: May 2021 (scheduled)

Effective Date of the Company Split: July 1, 2021 (scheduled)

Method of the Company Split: an absorption-type company split in which the Company is the splitting company and JP Rakuten Logistics, LLC. is the successor company

Details of allotments related to the Company Split: In consideration of the asset status of the Logistics Business expected as of the effective date of the Company Split, no shares nor other money will be allotted through the Company Split.

Handling of subscription rights to shares and bonds accompanying the Company Split: not applicable

Changes in capital due to the Company Split: no change in the Company's capital stock

Rights and obligations to be succeeded by the successor: the items specified by the Company Split Contract

Prospect of fulfillment of obligations: We reasonably believe that the prospect of fulfillment of obligations on the part of the company is not an issue in the Company Split.

4) Overview of business unit subject to split-off

Main line of business of the unit subject to split-off: Logistics business conducted by the Company

Reporting segment which the business unit subject to split-off belongs to: Internet Services Segment

Operating results of the business unit subject to split-off (for the previous fiscal year): Revenue ¥16,924 million

Items and amounts of assets and liabilities subject to split-off (at the end of the previous fiscal year):

Assets		Liabilities	
Item	Book value (Millions of Yen)	Item	Book value (Millions of Yen)
Property, plant and equipment	78,288	Other liabilities	76,283
Others	3,006	Others	4,672
Total assets	81,294	Total liabilities	80,955