

October 29, 2019

Company name Rakuten, Inc.

Representative Hiroshi Mikitani

Chairman and CEO

(Stock Code: 4755

Tokyo Stock Exchange First Section)

**Announcement of Financial Results of
Rakuten Securities, Inc., a Consolidated Subsidiary**

Rakuten Securities, Inc. (President: Yuji Kusunoki. Head Office: Setagaya-ku, Tokyo), a consolidated subsidiary of Rakuten, Inc., today issued the attached press release relating to its consolidated financial reports (based on J-GAAP) for the nine months ended September 30, 2019.

Rakuten Group plans to announce consolidated financial reports for the nine months ended September 30, 2019, on November 7, 2019 (Thursday).

In addition, Rakuten Group announces financial results based on IFRS. The attached financial results of Rakuten Securities, Inc. are based on J-GAAP, which has different accounting processes for transactions from IFRS.

Financial Reports For the nine months ended September 30, 2019

Rakuten Securities, Inc.

Rakuten Securities, Inc. (President: Yuji Kusunoki. Head Office: Setagaya-ku, Tokyo) consolidated financial reports for the nine months ended September 30, 2019 (J-GAAP).

The financial reports of Rakuten Securities, Inc. are based on "Uniform Accounting Standards for Securities Companies" (set by the Board of Directors of the Japan Securities Dealers Association, November 14, 1974). Commodity futures transactions are based on "Uniform Accounting Standards for Commodity Futures Transactions" (set by the Board of Directors of the Commodity Futures Association of Japan, March 3, 1993).

Results for the nine months ended September 30, 2019 (January 1, 2019 to September 30, 2019)

Consolidated Operating Results*

(Millions of yen, rounded down)

	Operating revenue	Net operating revenue	Operating income	Ordinary income	Net income
Nine months ended September 30, 2019	41,760	39,928	8,604	7,863	4,969
Nine months ended September 30, 2018	—	—	—	—	—

* From fiscal year 2018, Rakuten Securities, Inc. change its accounting period (closing date) from March 31 to December 31. Accordingly, the consolidated financial results for the third quarter (cumulative) of the fiscal year ended December 2018 are not listed because the third quarter consolidated financial statements for the fiscal year ended December 2018 have not been prepared.

(Notes)

(Change of accounting policy)

(Application of Accounting Standard for Revenue Recognition)

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018, hereinafter referred to as "Revenue Accounting Standard") and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018), applicable from the consolidated fiscal year beginning April 1, 2018, has been applied from the beginning of this accounting period. When the control of the promised goods or services is transferred to the customer, the company recognizes revenue as the amount expected to be received in exchange for the goods or services.

This changes the way revenue is recognized, as financial expenses and selling and general expenses related to the transaction is offset with the revenue and only the net amount is recorded in case where the Company is an agent in the transactions involving third parties. In addition, incremental customer acquisition cost and fulfillment cost that is expected to be recoverable is recognized as an asset.

The application of the Revenue Accounting Standard is in accordance with the transitional treatment set forth in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition, and the aggregate amount of the impact on retroactive application of the new accounting policy prior to the beginning of the first quarter is added to the retained earnings at the beginning of the first quarter, and

the new accounting policy is applied from the balance at the beginning of the current period. In addition, the method specified in Paragraph 86 paragraph (1) of the Accounting Standard for Revenue Recognition, for contract changes made prior to the beginning of the current quarter of the consolidated accounting period, the following processes from 1 to 3 are performed, and the cumulative impact is added to retained earnings at the beginning of the first quarter of the current consolidated accounting period.

- 1) Classification of filled and unfilled portion of performance obligations
- 2) Calculation of transaction price
- 3) Allocation of transaction price to filled and unfilled portion of performance obligations

As a result, operating revenue decreased by 1,472 million yen, financial expenses decreased by 1,124 million yen, selling and general and administrative expenses decreased by 508 million yen, operating income, ordinary income, and income before income taxes and other adjustments increased by 160 million yen. In addition, the balance of retained earnings at the beginning of the fiscal year increased by 386 million yen.

* Quarterly financial disclosure is not subject to quarterly review by a certified public accountant or an audit firm.

(Reference information)

Results for the six months ended September 30, 2019 (April 1, 2019 to September 30, 2019)

Consolidated Operating Results

(Millions of yen, rounded down)

	Operating revenue	Net operating revenue	Operating income	Ordinary income	Net income
Six months ended September 30, 2019	27,373	26,101	5,268	4,789	3,060
Six months ended September 30, 2018	29,539	28,008	10,382	10,079	6,976

(1) Consolidated Balance Sheet

(Millions of yen)

	As of December 31, 2018	As of September 30, 2019
(Assets)		
Current assets	1,537,370	1,710,338
Cash and deposits	101,805	137,762
Cash segregated as deposits	994,997	1,098,057
Money held in trust	1,300	1,800
Trading products	33,484	26,478
Trading securities and others	856	824
Derivatives	32,627	25,653
Operating investment securities for sale and others	8	8
Trade date accrual	1,388	319
Margin transaction assets	344,016	381,388
Loans on margin transactions	319,016	282,012
Cash collateral pledged for securities borrowing on margin transactions	25,000	99,375
Advances paid	692	121
Cash paid for offering	4,755	5,476
Securities received as collateral *1	229	320
Short-term guarantee deposits	42,320	46,703
Variation margin paid	3,384	2,464
Advance payments	533	269
Prepaid expenses	500	391
Accounts receivable – other	1,944	2,107
Accrued income taxes	—	189
Accrued revenues	6,102	6,701
Allowance for doubtful accounts	(92)	(221)
Fixed assets	29,475	30,417
Tangible fixed assets	1,695	1,698
Buildings	412	400
Furniture and fixtures	1,282	1,068
Lease assets	—	229
Intangible fixed assets	25,906	26,002
Goodwill	6,143	5,691
Customer relationships	1,200	1,056
Software	16,605	17,462
Software in progress	1,957	1,462
Lease assets	—	329
Investments and other assets	1,873	2,715
Investment securities	422	499
Long-term loans receivable	253	281
Long-term guarantee deposits	1,209	1,205
Long-term prepaid expenses	36	56
Deferred tax assets	133	151
Others	1,355	2,610
Allowance for doubtful accounts	(1,537)	(2,089)
Total assets	1,566,846	1,740,755

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(Millions of yen)

	As of December 31, 2018	As of September 30, 2019
(Liabilities)		
Current liabilities	1,467,223	1,640,244
Trading products	14,802	4,005
Trading securities and others	0	—
Derivatives	14,801	4,005
Margin transaction liabilities	67,423	147,925
Borrowings on margin transactions	13,688	20,419
Cash received for securities lending on margin transactions	53,735	127,505
Loans payable secured by securities	246,463	181,722
Cash received on debt credit transactions of securities	246,463	181,722
Deposits received	765,602	832,363
Guarantee deposits received *2	285,413	309,504
Accounts for non-received securities and others	36	12
Short term loans payable	82,000	160,000
Advances received	334	348
Accrued revenue	6	0
Lease obligations	—	111
Accounts payable – other	99	148
Accrued expenses	3,497	3,353
Income taxes payable	1,160	—
Provision for employees' bonuses	227	549
Provision for directors' bonuses	30	20
Provision for sales promotion expenses	122	178
Other current liabilities	2	1
Fixed liabilities	231	912
Lease obligations	—	512
Net defined benefit liability	55	224
Asset retirement obligations	175	175
Statutory reserves	3,755	3,755
Reserve for financial products liabilities	3,743	3,743
Reserve for liability for commodities transactions	11	11
Total liabilities	1,471,210	1,644,912
(Net assets)		
Shareholders' equity		
Capital stock	7,495	7,495
Capital surplus	4,511	4,511
Retained earnings	84,094	84,451
Total shareholders' equity	96,101	96,458
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3	1
Foreign currency translation adjustment	(468)	(616)
Total accumulated other comprehensive income	(465)	(614)
Total net assets	95,636	95,843
Total liabilities and net assets	1,566,846	1,740,755

*1: Securities received as collateral for commodity futures transactions (Securities deposited with a Commodity Clearing Organization as clearing margins for transactions by consignors and others).

*2: Includes JPY 229 million securities in the fiscal year ended December 31, 2018 and JPY 320 million securities in nine months ended September 30, 2019 received as substitute for clearing margins etc. from consignors and others for commodity futures transactions.

(2) Consolidated Statements of Income

	(Millions of yen)
	Nine months ended September 30, 2019 (January 1 – September 30, 2019)
Operating revenue	41,760
Commission received	14,285
Commission to consignees	10,168
Commission for underwriting, secondary distribution and solicitation for selling and others for professional Investors	27
Fee for offerings, secondary distribution and solicitation for selling and others for professional investors	928
Other commissions received	3,161
Net trading income	12,338
Operating Investment securities for sales and others	(0)
Financial revenue	14,422
Other operating revenue	712
Financial expenses	1,831
Net operating revenue	39,928
Selling, general, and administrative expenses	31,323
Trading related expenses	13,745
Personnel expenses	3,859
Real estate expenses	1,442
Office expenses	5,503
Depreciation	5,040
Taxes and dues	509
Goodwill amortization	414
Provision for allowance for doubtful accounts	692
Others	115
Operating income	8,604
Non-operating income	23
Non-operating expenses	765
Ordinary income	7,863
Extraordinary gains	88
Extraordinary losses	287
Income before income taxes and other adjustments	7,664
Income taxes – current	2,884
Income taxes – deferred	(190)
Total income taxes	2,694
Net income	4,969
Profit (loss) attributable to owners of parent	4,969

(3) Consolidated Statements of Comprehensive Income

	(Millions of yen)
	Nine months ended September 30, 2019 (January 1 – September 30, 2019)
Net income	4,969
Other comprehensive income	
Valuation difference on available-for-sale securities	(1)
Foreign currency translation adjustment	(147)
Total other comprehensive income	(149)
Net comprehensive income	4,820
(Breakdown)	
Comprehensive income attributable to owners of parents	4,820
Comprehensive income attributable to non-controlling interests	—