

January 27, 2020

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 fiscal year ended December 31, 2019.

Rakuten Group plans to announce consolidated financial reports for the fiscal year ended December 31, 2019, on February 13, 2020 (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 fiscal year ended December 31, 2019

Rakuten Securities, Inc.

Rakuten Securities, Inc. (President: Yuji Kusunoki. Head Office: Setagaya-ku, Tokyo) consolidated financial reports for the fiscal year ended December 31, 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 fiscal year ended December 31, 2019 (January 1, 2019 to December 31, 2019)

Consolidated Operating Results*

(Millions of yen, rounded down)

	Operating revenue	Net operating revenue	Operating income	Ordinary income	Net income
Fiscal year ended December 31, 2019	56,055	53,590	11,299	10,258	6,299
Nine months ended December 31, 2018	45,106	42,810	15,474	14,934	10,157

* From fiscal year 2018, Rakuten Securities, Inc. change its accounting period (closing date) from March 31 to December 31. Accordingly, the period of the previous year (April 1, 2018 to December 31, 2018) to be compared differs from the period of the year ended December 31, 2019 (January 1, 2019 to December 31, 2019).

(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 2,215 million yen, financial expenses decreased by 1,744 million yen, selling and general and administrative expenses decreased by 701 million yen, operating income, ordinary income, and income before income taxes and other adjustments increased by 230 million yen. In addition, the balance of retained earnings at the beginning of the fiscal year increased by 386 million yen.

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

(Reference information)

Results for the nine months ended December 31, 2019 (April 1, 2019 to December 31, 2019)

Consolidated Operating Results

(Millions of yen, rounded down)

	Operating revenue	Net operating revenue	Operating income	Ordinary income	Net income
Nine months ended December 31, 2019	41,669	39,763	7,963	7,185	4,389
Nine months ended December 31, 2018	45,106	42,810	15,474	14,934	10,157

(1) Consolidated Balance Sheet

	(Millions of yen)	
	As of December 31, 2018	As of December 31, 2019
(Assets)		
Current assets	1,537,370	1,845,300
Cash and deposits	101,805	103,792
Cash segregated as deposits	994,997	1,242,181
Money held in trust	1,300	1,800
Trading products	33,484	26,093
Trading securities and others	856	948
Derivatives	32,627	25,145
Operating investment securities for sale and others	8	8
Trade date accrual	1,388	313
Margin transaction assets	344,016	406,325
Loans on margin transactions	319,016	320,946
Cash collateral pledged for securities borrowing on margin transactions	25,000	85,378
Advances paid	692	130
Cash paid for offering	4,755	4,170
Securities received as collateral *1	229	255
Short-term guarantee deposits	42,320	48,733
Variation margin paid	3,384	1,646
Advance payments	533	232
Prepaid expenses	500	451
Accounts receivable – other	1,944	2,341
Accrued revenues	6,102	7,054
Allowance for doubtful accounts	(92)	(229)
Fixed assets	29,475	30,077
Tangible fixed assets	1,695	1,576
Buildings	412	345
Furniture and fixtures	1,282	1,012
Lease assets	—	218
Intangible fixed assets	25,906	25,628
Goodwill	6,143	5,572
Customer relationships	1,200	1,008
Software	16,605	17,202
Software in progress	1,957	1,431
Lease assets	—	414
Investments and other assets	1,873	2,872
Investment securities	422	456
Long-term loans receivable	253	269
Long-term guarantee deposits	1,209	1,291
Long-term prepaid expenses	36	41
Deferred tax assets	133	219
Others	1,355	2,542
Allowance for doubtful accounts	(1,537)	(1,948)
Total assets	1,566,846	1,875,377

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(Millions of yen)

	As of December 31, 2018	As of December 31, 2019
(Liabilities)		
Current liabilities	1,467,223	1,773,346
Trading products	14,802	8,589
Trading securities and others	0	—
Derivatives	14,801	8,589
Margin transaction liabilities	67,423	149,300
Borrowings on margin transactions	13,688	18,057
Cash received for securities lending on margin transitions	53,735	131,243
Loans payable secured by securities	246,463	179,007
Cash received on debt credit transactions of securities	246,463	179,007
Deposits received	765,602	954,814
Guarantee deposits received *2	285,413	316,179
Accounts for non-received securities and others	36	24
Short term loans payable	82,000	160,000
Advances received	334	328
Accrued revenue	6	7
Lease obligations	—	123
Accounts payable – other	99	48
Accrued expenses	3,497	3,921
Income taxes payable	1,160	501
Provision for employees' bonuses	227	259
Provision for directors' bonuses	30	30
Provision for sales promotion expenses	122	207
Other current liabilities	2	1
Fixed liabilities	231	996
Lease obligations	—	562
Net defined benefit liability	55	325
Asset retirement obligations	175	107
Statutory reserves	3,755	3,805
Reserve for financial products liabilities	3,743	3,792
Reserve for liability for commodities transactions	11	12
Total liabilities	1,471,210	1,778,147
(Net assets)		
Shareholders' equity		
Capital stock	7,495	7,495
Capital surplus	4,511	4,511
Retained earnings	84,094	85,780
Total shareholders' equity	96,101	97,787
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3	1
Foreign currency translation adjustment	(468)	(528)
Remeasurements of defined benefit plans	—	(30)
Total accumulated other comprehensive income	(465)	(557)
Total net assets	95,636	97,229
Total liabilities and net assets	1,566,846	1,875,377

*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 255 million securities in the fiscal year ended December 31, 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 December 31, 2018 (April 1 – December 31, 2018)	Fiscal year ended December 31, 2019 (January 1 – December 31, 2019)
Operating revenue	45,106	56,055
Commission received	16,115	19,716
Commission to consignees	11,668	14,098
Commission for underwriting, secondary distribution and solicitation for selling and others for professional Investors	22	39
Fee for offerings, secondary distribution and solicitation for selling and others for professional investors	1,259	1,301
Other commissions received	3,165	4,277
Net trading income	11,047	16,025
Operating Investment securities for sales and others	(0)	(0)
Financial revenue	17,169	19,370
Other operating revenue	773	943
Financial expenses	2,295	2,465
Net operating revenue	42,810	53,590
Selling, general, and administrative expenses	27,335	42,290
Trading related expenses	12,748	18,835
Personnel expenses	3,485	5,159
Real estate expenses	1,502	1,882
Office expenses	4,126	7,548
Depreciation	4,467	6,790
Taxes and dues	517	715
Goodwill amortization	424	552
Provision for allowance for doubtful accounts	(46)	653
Others	109	151
Operating income	15,474	11,299
Non-operating income	18	25
Non-operating expenses	558	1,066
Ordinary income	14,934	10,258
Extraordinary gains	32	88
Extraordinary losses	138	706
Income before income taxes and other adjustments	14,828	9,640
Income taxes – current	4,452	3,584
Income taxes – deferred	218	(243)
Total income taxes	4,670	3,341
Net income	10,157	6,299
Profit (loss) attributable to owners of parent	10,157	6,299

(3) Consolidated Statements of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2018 (April 1 – December 31, 2018)	Fiscal year ended December 31, 2019 (January 1 – December 31, 2019)
Net income	10,157	6,299
Other comprehensive income		
Valuation difference on available-for-sale securities	(1)	(1)
Foreign currency translation adjustment	143	(59)
Remeasurements of defined benefit plans	—	(30)
Total other comprehensive income	142	(92)
Net comprehensive income	10,300	6,206
(Breakdown)		
Comprehensive income attributable to owners of parents	10,300	6,206
Comprehensive income attributable to non-controlling interests	—	—