

INNOVATION

Annual Report

Fiscal Year Ended December 31, 2016



Rakuten Ecosystem

Since the launch of the e-commerce marketplace Rakuten Ichiba in 1997, Rakuten has expanded to offer diverse services in e-commerce, FinTech, ad tech, Digital content and communications to more than 1.1 billion members around the world.



Rakuten Global Presence

Rakuten's partnership with world-famous Spanish soccer team FC Barcelona (a.k.a. Barca) will power increased global awareness, as Rakuten's 1.1 billion members around the world will encounter the Rakuten brand through Barca. We believe this is a tremendous opportunity.



Rakuten



**FC BARCELONA OFFICIAL
INNOVATION & ENTERTAINMENT PARTNER**

BIG D

**Global
Membership**

1.1
billion

**Global
Annual GTV**

¥ 10.7
trillion

**Geographical
Presence**

190
countries

DATA

**Japan Registered
Membership**

90
million*¹

**Domestic EC
Annual GMS**

¥3.0
trillion

**Business Line-up
in Japan**

70
services

(As of December 31, 2016, except *1)
*1. As of March 31, 2017

Rakuten Viber

A global instant messaging and calling app boasting over 850 million unique ID numbers.



A cash back platform with a transaction volume of US\$6.5 billion.

楽天銀行

One of the largest internet banks in Japan, already with over 5.6 million accounts.

Rakuten kobo

A global eReading service in over 190 countries.

Rakuten OverDrive

A distributor of digital books to libraries and educational facilities in international markets.

ONLINE



Rakuten Ichiba

Japan's largest internet shopping mall, with a B2B2C business model and over 44,500 participating merchants

Rakuten CAFE

Featuring a menu of popular desserts and snacks from Rakuten Ichiba along with a variety of Rakuten services.



The heart of the popular Rakuten loyalty points program used both online and offline.

R Mobile

No.1 mobile virtual network operator (MVNO) in Japan with over 110 physical shops around Japan.



Lockers installed at 22 places in Japan for convenient pickup of goods ordered on Rakuten Ichiba.

Rakuten Drone

A prototype delivery service that utilizes drones.

OFFLINE



Rakuten Card

The credit card ranked No.1 in customer satisfaction in Japan with annual transaction volume over ¥5 trillion

Our Philosophy

Innovation is at the core of Rakuten culture and
is critical to our identity and success.

In 2016, we adopted a new corporate vision:

Global Innovation Company

Our Mission

**Contribute to society
by creating value through
innovation and entrepreneurship**

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To Our Shareholders

Rakuten: Global Innovator



Hiroshi Mikitani
Chairman and CEO

Since the launch of our internet shopping mall, Rakuten Ichiba, in 1997, we have introduced services in a wide range of areas, from e-commerce and finance to digital content and telecommunications. Our diverse businesses are centered on a membership base created through a common ID system that forms the core of a unique environment known as the “Rakuten Ecosystem.”

Rakuten continues to innovate, improving productivity and encouraging new business creation. Our organization and structure also continue to evolve to support innovation and growth. The workforce has grown from just six people at establishment, to around 14,000 today. I am proud of the team’s achievements. They have built us into a corporate group that generates gross transaction value of more than ¥10 trillion by providing innovative services to over one billion users worldwide.

As the internet has become a given in our everyday lives, consumer patterns of behavior and even what it means to be a nation are being redefined. In this context, last year, we set a new vision for Rakuten as a “Global Innovation Company”. This vision captures how we will continue to work to create a better future for everyone, by always taking on new challenges, anticipating what lies ahead from a global perspective, and constantly evolving, without fear of failure.

At the same time, as we leverage big data and artificial intelligence (AI) to evolve and improve our service delivery and quality, we are also going above and beyond online services and expanding into new offline areas, such as the mobile virtual network operator (MVNO) business, real-time mobile payment services, and drone delivery services. In addition, the 2017/2018 European football season will see the launch of our partnership with FC Barcelona, one of the most respected teams in the world. As Main Global Partner and the first-ever Global Innovation and Entertainment Partner, we will take global awareness of the Rakuten brand and our corporate values to an entirely new level.

Empowering individuals, businesses and society to realize their dreams, through innovation and entrepreneurship, is at the heart of our corporate mission and essential to our own success. This mission helps to ensure that we are on the right path to leverage Rakuten’s unique capabilities for the achievement of sustainable growth and building corporate and shareholder value. As we make further progress along this path, we look forward to the continuing support of our shareholders.

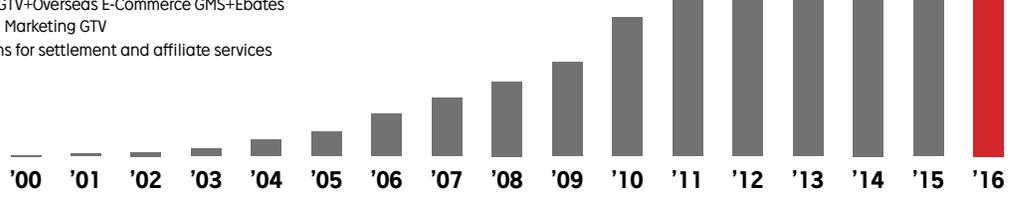
A handwritten signature in black ink that reads "Hiroshi Mikitani". The signature is written in a cursive, flowing style.

Growth in 20 Years



Innovations such as the launch of the Rakuten Ichiba internet shopping mall, Rakuten Points, and the development of FinTech have driven growth to a size and international scope far beyond original expectations in 1997.

*1. Global Gross Transaction Value=Domestic E-Commerce GMS+Credit Card GTV+Edu GTV+Rakuten Point Card GTV+Overseas E-Commerce GMS+Ebates GMS+Digital Contents GT+Rakuten Marketing GTV
 *2. Includes intercompany transactions for settlement and affiliate services



Vision 2020

Our mid-term strategy Vision 2020 provides insights to improve our long-term performance by assessing each business unit against three growth principles. Innovation will drive this growth.

Strong Businesses
 Formidable competitive positions, growth of 10-30%

Smart Businesses
 Niche/unique, meaningful share, sustainable profit, growth of 25-75%

Speed Businesses
 Entrepreneurial, disruptive, targeting very high growth of 70%+

Domestic E-Commerce:
 Operating income* is targeted to rise from ¥96 billion in 2015 to ¥160 billion in 2020, GMS from ¥2.7 trillion to ¥5.2 trillion

FinTech:
 Operating income is targeted to rise from ¥64 billion in 2015 to ¥120 billion in 2020

Overseas E-Commerce:
 Ebates GMS is targeted to rise from US\$4.9 billion in 2015 to US\$15 billion in 2020, operating income from ¥3.5 billion to ¥20 billion

Rakuten Marketing:
 Operating income is targeted to rise from ¥4.6 billion in 2015 to ¥10 billion in 2020

Other Internet Services:
 Contribution of income from Rakuten Kobo+OverDrive, operating income is targeted to turn from ¥18 billion loss in 2015 to ¥20 billion profit in 2020

Viber:
 Planning rapid expansion to 2 billion unique IDs in 2020

Rakuten Mobile:
 Rapid growth as an MVNO

Other Segment:
 Operating income is targeted to be positive in 2020

*Operating income is on a non-GAAP basis

Leading FinTech

Further expansion of Rakuten Card and Rakuten Bank

FinTech in Japan

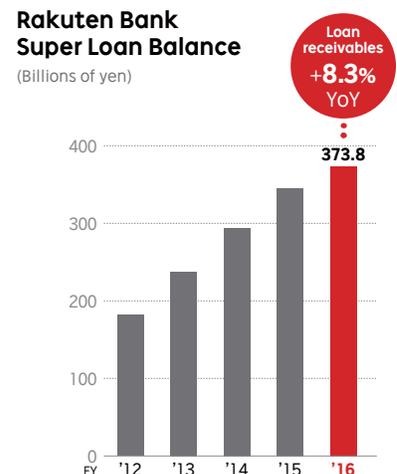
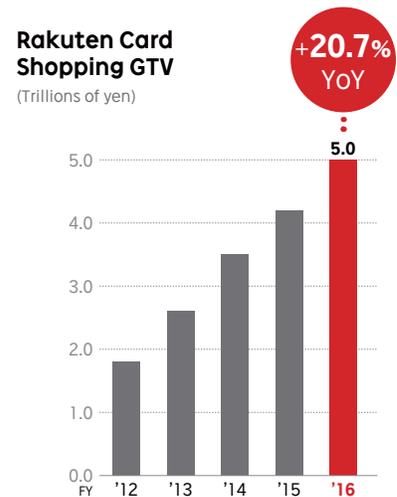
One goal of our medium-term strategy Vision 2020 is to propel Rakuten Card to the top in terms of market share, by increasing card gross transaction value (GTV) to ¥7-8 trillion and 20 million cardholders. Top-ranked in a customer satisfaction survey for eight consecutive years, Rakuten Card is currently the third-largest credit card company in Japan by GTV with over 14 million cardholders. In 2017, it is poised to become the No.1 company in terms of GTV as innovations push transactions beyond the ¥5.0 trillion level.

In banking services, profits continued to grow despite Japan's negative interest rate policy, due in part to an increase in interest income from loans. Rakuten Bank's loan balance surged 32.0% year on year, while the Bank continues to improve its operating efficiency. Rakuten Bank's core net business profit climbed 17.9% year on year to ¥17.8 billion, and the number of accounts grew to 5.7 million (a year-on-year increase of 8.7%). The deposit balance climbed to ¥1.6 trillion (a year-on-year increase of 9.0%), the loan balance to ¥587.9 billion (a year-on-year increase of 32.0%), and the super loan balance to ¥373.8 billion (a year-on-year increase of 8.3%).

In securities services, the negative impact of volatile market conditions markedly depressed revenue and profits. Nevertheless, Rakuten Securities continues to move forward on the expansion of its investment trust and Forex activities, and positive changes in its profit structure.

Rakuten Life Insurance, the fourth leg of domestic FinTech services, is achieving healthy growth. It holds 316,000 life insurance policies with total annualized premiums of ¥11.4 billion. In April 2017, Rakuten Life Insurance began efforts to improve brand recognition and its omni-channel experience.

Rakuten Card aims to be **the No.1 company** in domestic market share (GTV basis)



Rakuten Card (Mastercard)



Rakuten Gold Card (Mastercard)



Rakuten ANA Mileage Club Card (Visa)



Rakuten Card:
Shopping Panda Limited Version (JCB)

**Cards issued by
Taiwan Rakuten Card
surpass 200,000 in the first year.**



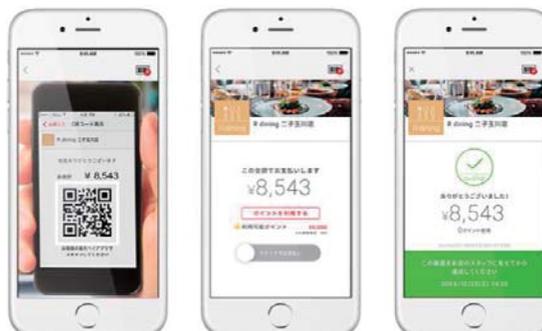
FinTech Expands beyond Japan

Rakuten Card expanded operations into the United States in April 2014. In January 2015, we launched the Taiwan Rakuten Card, the first of its kind in Taiwan issued by a global e-commerce company, and Rakuten’s first overseas card. As in Japan, it has united shoppers’ online and offline worlds with generous point accrual incentives and other unique features. We enhanced overseas banking services with the commencement of full-scale European commercial banking operations by Rakuten Europe Bank S.A., based in Luxembourg. Rakuten Securities expanded its Forex business into Hong Kong in 2015, and followed that with the purchase of FXAsia Pty Ltd, an operator of Forex services in Australia, in 2016. Additionally, Rakuten Securities opened the first online retail securities business in Malaysia.

Payment Services

Rakuten Pay (unified and rebranded in-store settlement) is launching a service supporting 14 major electronic money brands and Android Pay™ in the summer of 2017. The Rakuten Point Card and Rakuten Edy electronic money service are now compatible with Android Pay™. Also, Apple Pay has been available to Rakuten customers in Japan since October 2016.

Rakuten Pay launches service supporting major electronic money brands and Android Pay™



Accelerating E-Commerce

E-Commerce growing stronger in Japan and overseas

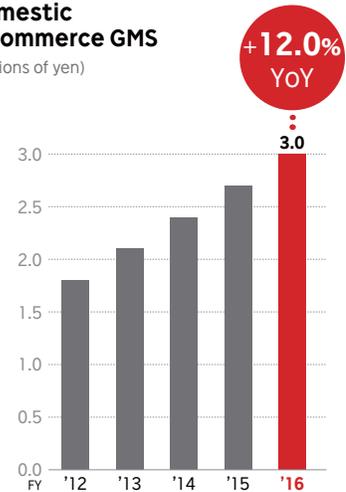
The growth of domestic e-commerce gross merchandise sales (“GMS”) accelerated in 2016. In Japan, to build out our long-term and loyal customer base, we conducted programs to raise customer satisfaction, strengthen services for smart devices, and open up the Rakuten Ecosystem.

Overseas, e-commerce is on track to improve overseas internet services on contributions from the steady growth of Ebates.

Domestic E-Commerce

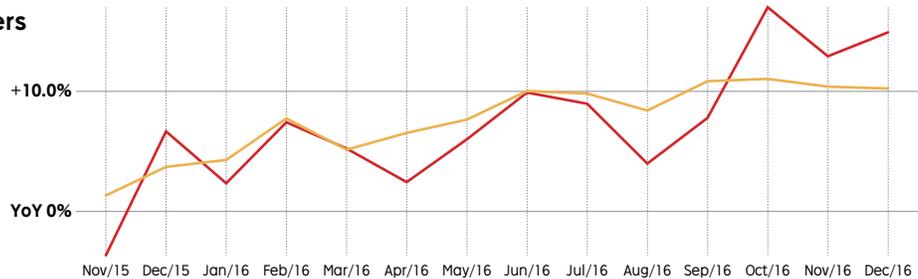
GMS in Japan rose 12.0% year on year to ¥3 trillion, largely due to the prolonged popularity and impact of the Super Point Up (SPU) program, which encourages users to stay within the Rakuten ecosystem. The number of users and number of orders on Rakuten Ichiba, our internet shopping mall, both steadily increased, the ratio of customers who paid with a Rakuten Card increased to 51.2% in December 2016, and the Rakuten Ichiba mobile GMS ratio (mobile app GMS to total online GMS) reached 60.8% in the fourth quarter of 2016.

Domestic E-commerce GMS (Trillions of yen)



Increasing Ichiba Users and Orders

— Monthly Unique Purchasers
— Number of Orders



Service Enhancement

We have been especially keen to launch and upgrade services that contribute to a positive user experience, and in 2016, many of those service enhancements focused on making post-purchase delivery faster and more convenient.

Continuing SPU strategy

Rakuten Super Point Up Program Maximum 7X Rakuten Points



The **Sora Raku** delivery service using drones will increase our customer satisfaction.

They included Rakuten BOX, a service that sends orders to specialized delivery lockers at train stations for later pick up by the customer, a similar service in partnership with Sagawa Express for pick up at convenience stores, and in cooperation with Japan Post, a parcel delivery locker service at selected post offices.

In December, we acquired all the outstanding shares of Soukai Drug Co., Ltd., an internet-based seller of a wide range of household products. With deepened collaboration with previously acquired wholly owned subsidiary Kenko.com, we are expecting to expand sales volume, increase efficiency of the system and logistics infrastructure, optimize operating resources such as personnel and network/data, and realize rapid implementation of business synergies.

In May 2016, Rakuten launched a trial prototype drone delivery service Sora Raku, and in November, held the world's first successful demonstration of a drone delivery service operated via a smartphone LTE network.

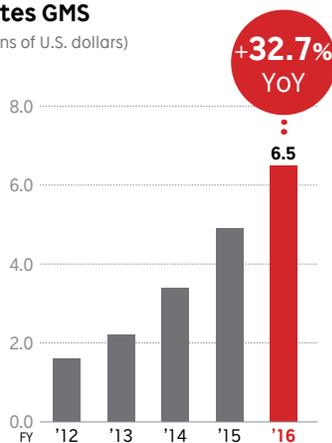
In Japan, Mobile C2C service Rakuma is a smartphone "flea market" where individuals post items and negotiate prices one-on-one with buyers. Fril is a C2C marketplace for fashion items. Total GMS for Rakuma and Fril has expanded rapidly since fall 2016 at an accelerating growth rate. The mobile C2C service Rakuma was enhanced in 2016 with the launch of a Fixed-Rate Pack shipping service as well as a convenience store dispatch and pick-up service at FamilyMart stores.



Overseas, **Ebates** contributed significantly to the growth of business results.

Ebates GMS

(Billions of U.S. dollars)



Overseas E-Commerce

In 2016, Rakuten Marketing won the Blue Book Award as the Best Affiliate Network, for the 5th year in a row. In 2016, Ebates GMS increased by 32.7% year on year to \$6.5 billion. In Europe, Rakuten made noteworthy gains in Germany, where Rakuten.de increased its GMS by 103% year on year, and in France, where PriceMinister rapidly grew its "Price Club" membership. Rakuten was also active in Asia, entering into collaboration with South Korean e-commerce sites 11Street and Gmarket, launching the Rakuma mobile C2C service in Taiwan, and partnering with major Chinese e-commerce site Kaola.com.

Global gross transaction value of the Rakuten Group totaled ¥10.7 trillion (a year-on-year increase of 18.0%), and global membership of Rakuten Group services rose to 1.1 billion members. In the U.S., backed by over US\$14 billion GMS, our U.S. Non-GAAP EBITDA grew rapidly to \$7.3 billion (a year-on-year increase of 139%).

Enhancing Media & Communications

Taking customer experience to higher levels

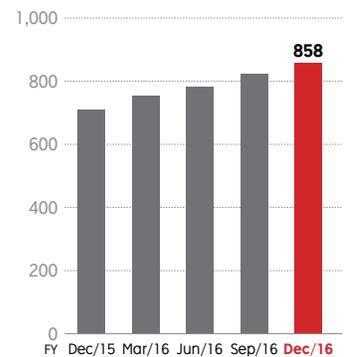
Mobile and Telecommunications Business

Viber had 858 million unique IDs as of December 2016. In 2016, it added the new Chat Extensions and Video Message features along with a service known as “Transfer by Viber,” which enables easy money transfers to anyone on the user’s Viber contact list from the Rakuten Bank app. Rakuten Mobile, which provides mobile virtual network operator (MVNO) services, is growing rapidly, and Rakuten members now receive Rakuten Super Points for their monthly usage payments. It is No.1 in terms of domestic MVNO market share*, and also has successfully expanded products, accessories and services, while also increasing its bricks-and-mortar touch points to 111 locations in 35 prefectures—enabling a new service, namely online purchase and in-store pick-up.

*Source: MOBILE MARKETING DATA LABO
MVNO (SIM) User Trend Survey, as of September 2016



Viber Unique IDs
(Millions of IDs)



**No.1 share
in domestic
MVNO(SIM) market**

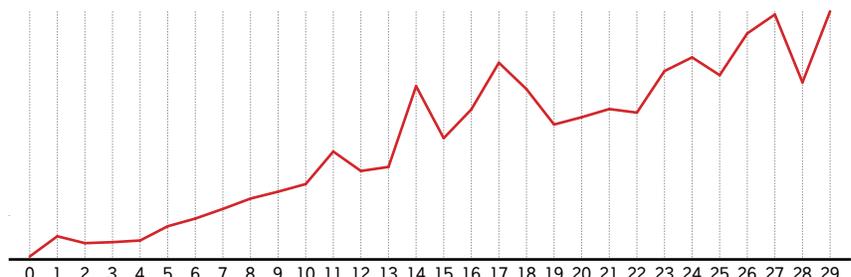


Viber’s unique IDs exceed
850 million.



Rakuten Mobile Users

*Month(s) since service launched



E-Books

In the E-Book Business, Rakuten Kobo and OverDrive are growing steadily as their synergies strengthen. Kobo accomplished an 18.9% year-on-year expansion in content to boost overall sales, launched an e-book store in Taiwan, and released an advanced reading E Ink device, the Kobo Aura ONE. Rakuten Kobo became Tolino's tech partner in Germany in 2017. OverDrive saw a steady 16.7% year-on-year increase in the number of total checkouts. Rakuten invested in getAbstract, the global leader in compressed digital content, for further global growth.

In August 2016, Rakuten launched "Rakuten Magazine" in Japan, a flat-rate digital magazine subscription service that provides unlimited access to over 200 digital titles via smartphone or tablet.



Rakuten MAGAZINE

Rakuten Magazine readers can enjoy about **200 titles**.



kobo aura ONE

Rakuten OverDrive

Rakuten kobo

Rakuten Kobo launched its world-class eReading service in Taiwan

<https://tw.kobo.com/>

Other

In August 2016, Rakuten launched "Rakuten Music," a service offering unlimited streaming of music for a fixed rate through an iOS or Android app. Rakuten Music is a "one-stop music service" allowing users to listen to and buy music seamlessly.

Financial Stability

Adding new strength to the top and bottom lines

While growing our revenues, Rakuten also keenly pursues sustainable productivity improvements. A key example is Project V6, which concluded in 2016 after surpassing the initial target to cut ¥10 billion from budgeted operating expenses, through shared best practices for improving productivity.

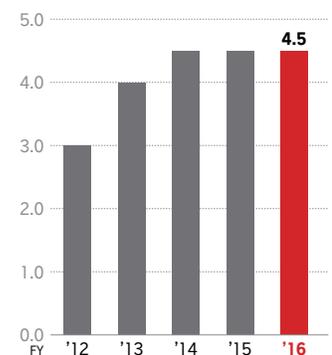
Rakuten Ventures Japan Fund and Rakuten FinTech Fund

Rakuten Ventures launched the ¥10 billion Rakuten Ventures Japan Fund in 2016. The new fund is aimed at early and growth stage internet startups in Japan, with a strong focus on unique technologies and business models, as well as high growth potential.

The Rakuten FinTech Fund, launched in 2015, is a US\$100 million global investment fund focused on investments in disruptive early to mid-stage FinTech startups that offer attractive potential return with strategic relevance.

Cash Dividends per Share

(Yen)



New Rakuten Company System

Objective

To accelerate rapid response to customer needs and maximize customer satisfaction

Approach

Redesigned organization to 11 companies and 6 divisions

Transition to a Company-System Organization

In July 2016, Rakuten transitioned to a company-system structure, an initiative designed to assure maximum responsiveness, service quality and customer satisfaction at this stage of our evolution. The new structure is comprised of 11 company groups to manage the business operations, and one group headquarters to provide corporate functions.

Enhancing Shareholder Value

Rakuten's basic policy on shareholder return takes 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. For the current fiscal year, Rakuten decided to pay a dividend of ¥4.5 per share.

Rakuten announced its decision on February 17, 2017, to buy back up to 120 million shares, for a maximum ¥100 billion, over one year between February 22, 2017 to February 21, 2018. The market price of our shares, capital efficiency, and financial conditions were all taken into consideration.

Financial Highlights

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2014	2015	2016	2016
Income and Loss				
Revenue	¥ 598,565	¥ 713,555	¥ 781,916	\$ 7,122,571
Operating income (Non-GAAP) (Note 2)	118,092	152,153	119,080	1,084,711
Operating income (IFRS)	106,397	94,689	77,977	710,301
Net income	71,103	44,280	38,001	346,156
Cash Flows				
Net cash flows from operating activities	¥ 111,860	¥ 78,245	¥ 30,700	279,649
Net cash flows from used in investing activities	(261,085)	(224,078)	(26,841)	(244,494)
Net cash flows from financing activities	189,512	221,831	45,200	411,732
Assets and Liabilities				
Total assets	¥3,680,695	¥4,269,953	¥4,604,672	\$41,944,540
Total liabilities	3,252,609	3,605,940	3,924,326	35,747,183
Total net assets	428,086	664,013	680,346	6,197,357
		Yen		U.S. dollars
Earnings per Share Attributable to Owners of the Company				
Net income (basic)	¥ 53.47	¥ 32.33	¥ 26.65	\$ 0.29
Net income (diluted)	53.15	32.09	26.44	0.29
Dividend per Share	¥ 4.5	¥ 4.5	¥ 4.5	\$ 0.04

Note 1: U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥109.78 to US\$ 1, the approximate rate of exchange at December 31, 2016.

Note 2: Non-GAAP operating income excludes amortization of intangible assets, stock-based compensation expense and other items such as gains and losses from impairments, acquisitions and change in accounting treatment.

Overview

Business Results for Fiscal Year 2016 (Non-GAAP basis)

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 of 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.

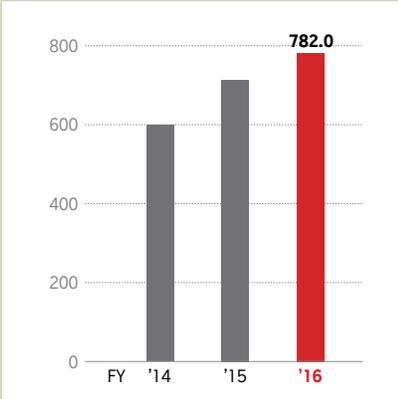
As a result, the Rakuten Group achieved revenue of ¥781,916 million, up 9.6% year-on-year, for the fiscal year ended December 31, 2016. However, mainly affected by increased expenses due to aggressive sales activities, the absence of unrealized gains on stocks recorded during the previous fiscal year,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

Business Results for Fiscal Year 2016 (IFRS basis)

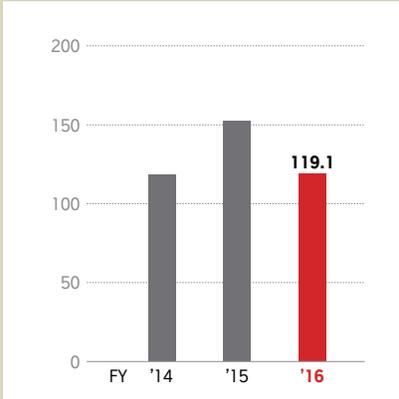
The Rakuten Group recorded revenue of ¥781,916 million, up 9.6% year-on-year, operating income of ¥77,977 million, down 17.6% year-on-year, and net income attributable to owners of the parent company of ¥37,995 million, down 14.5% year-on-year, for the fiscal year ended December 31, 2016.

Key Figures

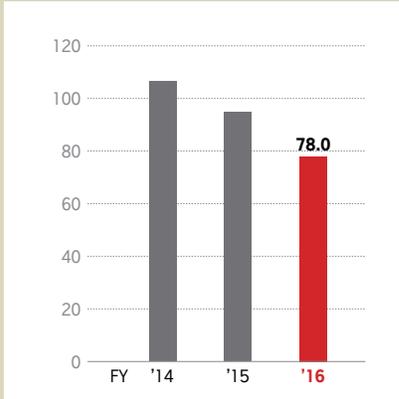
Revenue
(Billions of yen)



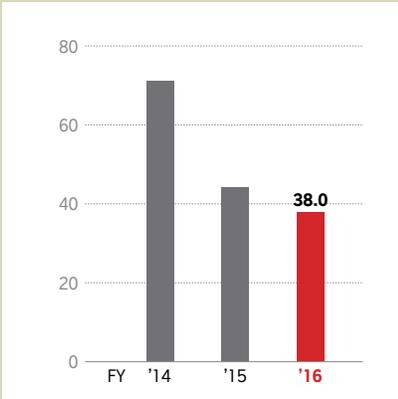
Operating Income (Non-GAAP)
(Billions of yen)



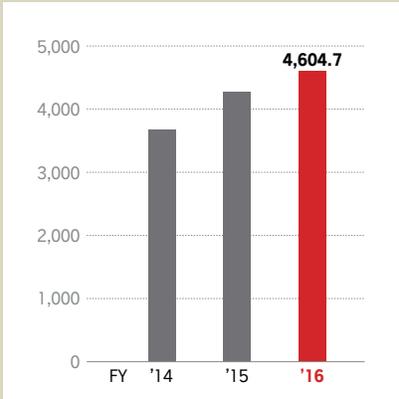
Operating Income (IFRS)
(Billions of yen)



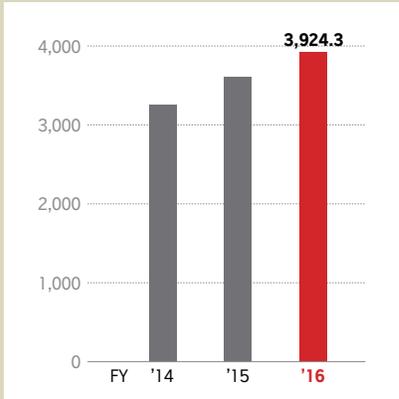
Net Income
(Billions of yen)



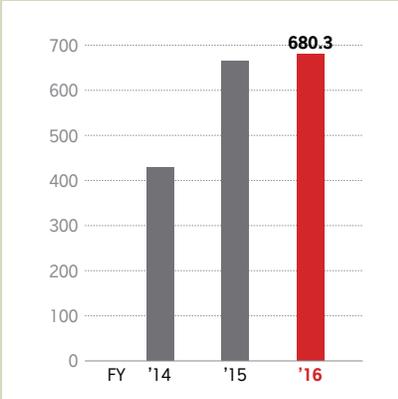
Total Assets
(Billions of yen)



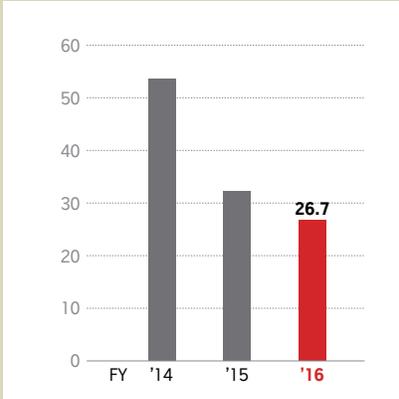
Total Liabilities
(Billions of yen)



Total Net Assets
(Billions of yen)



Earnings per Share (basic)
(Yen)



Return on Equity
(%)

