

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 nine months ended September 30, 2017

Rakuten, Inc.
November 13, 2017

Company name	Rakuten, Inc.	Listed	Tokyo Stock Exchange
Code No	4755	URL	https://www.rakuten.co.jp/
Representative (Title)	Chairman and CEO	(Name)	Hiroshi Mikitani
Contact person (Title)	CFO	(Name)	Yoshihisa Yamada
Supplementary materials for financial results: Yes			
Financial results information meeting held: Yes (For institutional investors and analysts)			

1. Consolidated Results for the nine months ended September 30, 2017 (January 1 – September 30, 2017)

(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	%
Nine months ended September 30, 2017	676,477	20.9	120,162	58.8	110,783	52.3	72,554	63.6
Nine months ended September 30, 2016	559,357	8.7	75,671	—	72,740	—	44,345	—

	Net income attributable to owners of the parent company		Comprehensive income		Basic Earnings per Share attributable to owners of the parent company	Diluted Earnings per Share attributable to owners of the parent company
	Millions of yen	%	Millions of yen	%	Yen	Yen
Nine months ended September 30, 2017	72,647	63.9	61,391	—	52.18	51.73
Nine months ended September 30, 2016	44,329	—	(40,116)	—	31.10	30.90

Note: Year on year changes for the third quarter of the fiscal year ending December 2016 (excluding revenue) are not stated due to retroactive adjustments resulting from a change in accounting policy.

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to owners of the parent company	Ratio of total equity attributable to owners of the parent company to total assets
	Millions of yen	Millions of yen	Millions of yen	%
As of September 30, 2017	5,212,207	651,045	651,006	12.5
As of December 31, 2016	4,604,672	682,490	682,391	14.8

2. Dividend Distribution

	Annual dividend per share				
	Q1	Q2	Q3	Q4	Total
	Yen	Yen	Yen	Yen	Yen
FY2016	—	0.00	—	4.50	4.50
FY2017	—	0.00	—	—	—
FY2017 (Forecast)	—	—	—	—	—

Note: Dividend per share for FY2017 is not yet decided, and there are no changes to this previously disclosed dividend forecast.

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

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

For details, see page P. 7 1. Qualitative Information, Financial Statements, etc. (3) Qualitative Information about Consolidated Business Forecasts.

There are no changes to this previously disclosed forecast.

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: Yes
3. Changes in accounting estimates: No

Note: For details, see page 15, 2. Consolidated Financial Statements (Summary) and Major Notes (6) Notes to the summary of consolidated financial statements for the nine months ended September 30, 2017 (Significant accounting policies)

(3) Number of shares issued (Common stock)

1. Total number of shares issued at the end of the period (including treasury stocks)
 - 1,434,282,500 shares (As of September 30, 2017)
 - 1,432,422,600 shares (As of December 31, 2016)
2. Number of treasury stocks at the end of the period
 - 78,935,738 shares (As of September 30, 2017)
 - 6,008,888 shares (As of December 31, 2016)
3. Average number of shares during the period (cumulative from the beginning of the year)
 - 1,392,230,354 shares (January 1 – September 30, 2017)
 - 1,425,247,703 shares (January 1 – September 30, 2016)

Indication regarding execution of review procedures

The quarterly financial statements are not subject to quarterly reviews.

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

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

1. 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 the management relies upon in making decisions (hereinafter “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. The management believes that the disclosure of Non-GAAP financial measures facilitates comparison between the Rakuten Group and peer companies in the same industry or comparison of its business results with those of prior fiscal years by stakeholders, and can provide useful information in understanding the underlying business results of the Rakuten Group and its future outlook. Unusual items refer to one-off items that Rakuten believes shall be excluded for the 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 stock-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 nine months ended September 30, 2017 (Non-GAAP basis)

The world economy during the nine months ended September 30, 2017 (January 1 to September 30, 2017) continued to stay on a gradual recovery track, although attention must be paid to factors including the normalization of U.S. monetary policy and uncertainty regarding the policies of various countries. The Japanese economy also saw an ongoing gradual recovery trend amid continuing improvement in the wage and employment environment.

Under such an environment, the Rakuten Group has implemented strategic actions in line with its medium-term strategy “Vision 2020” announced in February 2016. In domestic e-commerce services, the mainstay of Internet Services, the Rakuten Group is making every effort towards further growth in gross merchandise sales and revenues 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 further opening up the Rakuten Ecosystem. Results are on track for an improvement in overseas Internet services, due to contributions from the steady growth in U.S. subsidiary Ebates Inc. (“Ebates”) and other factors. The Rakuten Group is also making investments in companies that have new technologies or innovative business models, and has recorded unrealized gains on stocks and also gain on sales related to these investments. In the FinTech segment, further expansion of Rakuten Card’s membership base brought in more commission income, while expansion of banking services and the strong domestic stock market had a positive effect on securities services. These contributed to a solid increase in both revenue and profit. In credit card related services, we have undertaken a full-scale update of the core system, with the aim to flexibly operate services, providing greater user friendliness and to create an environment which enables our members to use credit cards without concern on a long-term basis.

As a result, the Rakuten Group achieved revenue of ¥676,477 million, up 20.9% year-on-year, for the nine months ended September 30, 2017, and Non-GAAP operating income increased by 50.0% year-on-year to ¥133,590 million.

(Non-GAAP)

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017	Amount Change YoY	% Change YoY
Revenue	559,357	676,477	117,120	20.9%
Non-GAAP Operating Income	89,081	133,590	44,509	50.0%

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

For the nine months ended September 30, 2017, amortization of intangible assets of ¥5,615 million and stock-based compensation expenses of ¥5,414 million were excluded from Non-GAAP operating income. In addition, impairment loss on fixed assets of 2,399 million yen is regarded as a one-off item. Again, one-off items to the amount of ¥2,042 million in the same period of the previous fiscal year include expenses associated with the strategic review of European businesses.

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017	Amount Change YoY
Non-GAAP operating income	89,081	133,590	44,509
Amortization of intangible assets (PPA)	(6,098)	(5,615)	483
Stock based compensation	(5,270)	(5,414)	(144)
One-off items	(2,042)	(2,399)	(357)
IFRS Operating Income	75,671	120,162	44,491

iii) Business Results for the nine months ended September 30, 2017 (IFRS basis)

The Rakuten Group recorded revenue of ¥676,477 million, up 20.9% year-on-year, IFRS operating income of ¥120,162 million, up 58.8% year-on-year, and net income attributable to owners of the parent company of ¥72,647 million, up 63.9% year-on-year, for the nine months ended September 30, 2017.

(IFRS)

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017	Amount Change YoY	% Change YoY
Revenue	559,357	676,477	117,120	20.9%
Operating income	75,671	120,162	44,491	58.8%
Net income attributable to owners of the parent company	44,329	72,647	28,318	63.9%

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.

Internet Services

In the Internet Services segment for the nine months ended September 30, 2017, revenue increased significantly in the mainstay domestic e-commerce services, partly due to the contribution of Soukai Drug Co., Ltd. (currently Rakuten Direct, Inc.) acquired in the previous year. With the aim of further revenue growth, the Rakuten Group actively worked on various initiatives, including cultivating a loyal customer base, conducting sales activities in order to win new users as well as initiatives targeting greater customer satisfaction, strengthening services for smart devices and opening up the Rakuten Ecosystem. As a result of these efforts, expenses associated with sales activities increased. Results are on track for improvement in overseas e-commerce services, partly thanks to the steady growth of Ebates. Rakuten Mobile, which provides MVNO (Mobile Virtual Network Operator) services, and Viber, which provides messaging and VoIP services, substantially increased revenue thanks to the introduction of new services as well as their full-scale aggressive sales activities. The Rakuten Group is also making investments in companies that have

new technologies or innovative business models, and has recorded unrealized gains on stocks and gains on sales of stocks related to these investments.

As a result, revenue for the Internet Service segment rose to ¥482,722 million, a 22.3% year-on-year increase, and segment profit stood at ¥83,181 million, a 106.0% year-on-year increase.

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017	Amount Change YoY	% Change YoY
Segment Revenue	394,726	482,722	87,996	22.3%
Segment Profit	40,380	83,181	42,801	106.0%

FinTech

In the FinTech segment for the nine months ended September 30, 2017, shopping transaction value and revolving balances in credit card related services increased due to growth in Rakuten Card memberships, resulting in a steady rise in revenue and profit. In credit card related services, our core system has been fully updated with the aim to flexibly operate services for providing greater user friendliness and to create an environment which enables our members to use credit cards without concern on a long-term basis. Excluding this incremental expense of system installation, profit from said services has shown a solid rise. In banking services, revenue and profit continued to grow despite the backdrop of a negative interest rate policy, due to an increase in interest income from expanding loan balances and improvements in cost efficiency. In securities services, stock trading commissions increased owing to a recovery in the domestic stock market with revenue and profit both growing year on year.

As a result, the FinTech segment recorded ¥243,759 million in revenue, a 11.4% year-on-year increase, while segment profit stood at ¥53,222 million, a 8.2% year-on-year increase.

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017	Amount Change YoY	% Change YoY
Segment Revenue	218,790	243,759	24,969	11.4%
Segment Profit	49,166	53,222	4,056	8.2%

(2) Analysis Concerning Financial Position

i) Assets, Liabilities, and Net Assets

Assets

Total assets at September 30, 2017 amounted to ¥5,212,207 million, an increase of ¥607,535 million from ¥4,604,672 million at the end of the previous fiscal year. The primary factors were an increase of ¥182,069 million in financial assets for securities business, an increase of ¥135,040 million in loans for banking business, an increase of ¥93,546 million in cash and cash equivalents, an increase of ¥62,298 million in loans for credit card business, and an increase of ¥61,937 million in investment securities.

Liabilities

Total liabilities at September 30, 2017 amounted to ¥4,561,162 million, an increase of ¥638,980 million from ¥3,922,182 million at the end of the previous fiscal year. The primary factors were an increase of ¥255,466 million in bonds and borrowings, an increase of ¥248,413 million in deposits for banking business, and an increase of ¥150,939 million in financial liabilities for securities business.

Equity

Equity at September 30, 2017 was ¥651,045 million, a decrease of ¥31,445 million from ¥682,490 million at the end of the previous fiscal year. The primary factors were a recognition of ¥72,647 million of net income attributable to owners of the parent company for the nine months ended September 30, 2017, which was offset by decreases of ¥89,661 million due to acquisition on treasury stock, and ¥11,316 million in other components of equity resulting from fluctuations in the foreign exchange rates, etc.

ii) Cash Flows

Cash and cash equivalents at September 30, 2017 was ¥641,815 million, an increase of ¥93,546 million from the end of the previous fiscal year. Among these, deposits with the Bank of Japan for banking business were ¥431,103 million, an increase of ¥54,224 million from the end of the previous fiscal year. Cash flow conditions and their major factors for the nine months ended September 30, 2017 are as follows.

Net cash flows from operating activities

Net cash flows from operating activities for the nine months ended September 30, 2017 resulted in a cash inflow of ¥86,861 million (compared with a cash inflow of ¥60,247 million for the same period of the previous fiscal year). Primary factors included a cash inflow of ¥110,783 million from income before income tax and a cash inflow of ¥248,255 million from an increase in deposits for banking business, which were offset by a cash outflow of ¥135,040 million due to an increase in loans for banking business, a cash outflow of ¥62,151 million due to an increase in loans for credit card business, a net cash outflow of ¥31,160 million from fluctuations of financial assets and liabilities for securities business (a cash outflow of ¥182,357 million for an increase in financial assets and a cash inflow of ¥151,197 million for an increase in financial liabilities), and a cash outflow of ¥30,363 million due to a decrease in operating payables.

Net cash flows from investing activities

Net cash flow from investing activities for the nine months ended September 30, 2017 resulted in a cash outflow of ¥150,792 million (compared with a cash inflow of ¥10,412 million for the same period of the previous fiscal year). Primary factors included a net cash outflow of ¥39,763 million for purchase and sale, etc. of investment securities for banking business (a cash inflow of ¥195,413 million from sales and redemption of investment securities and a cash outflow of ¥235,176 million for purchase of investment securities for banking business), a cash outflow of ¥38,095 million for purchase of investment securities, a cash outflow of ¥32,076 million due to purchase of intangible assets including software, and a cash outflow of ¥28,218 million due to purchase of property, plant and equipment including buildings.

Net cash flows from financing activities

Net cash flows from financing activities for the nine months ended September 30, 2017 resulted in a cash inflow of ¥156,657 million (compared with a cash inflow of ¥34,056 million for the same period of the previous fiscal year). Primary factors included a cash inflow of ¥176,618 million from long-term debt, a cash inflow of ¥99,541 million from issuance of bonds, a cash inflow of ¥77,947 million from an increase in short-term borrowings, and a cash inflow of ¥72,000 million from an increase in commercial papers, which were offset by a cash outflow of ¥141,334 million for repayment of long-term debt, a cash outflow of ¥89,697 million due to purchase of treasury stock, and a cash outflow of ¥30,300 million from redemption of bonds.

(3) Qualitative Information about Consolidated Business Forecasts

For the forecast of consolidated operating results for Fiscal 2017, 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 by the stock market.

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

Internet Services

The Group's e-commerce services will aim for further growth in gross transaction value and revenue through the development of a long-term, loyal customer base and the implementation of aggressive sales activities with the aim of winning new users, and by continuously pursuing initiatives targeting greater customer satisfaction, in addition to the expansion of the e-commerce market in Japan and overseas. We will also aim for growth in revenue by developing areas such as digital contents and the MVNO service where further growth is anticipated.

FinTech

In credit card related services, we will continue striving to achieve further growth of shopping transaction value by strengthening marketing initiatives aimed at expansion of market share and promotion of group synergy. However, depreciation expense and other expenses associated with updating the core system are expected to be incurred. In banking services, a solid expansion of operations is expected. Meanwhile, it is difficult to make a forecast for securities services due to the substantial impact of stock market conditions.

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

(Millions of yen)

	As of December 31, 2016	As of September 30, 2017
Assets		
Cash and cash equivalents	548,269	641,815
Accounts receivable – trade	117,088	105,365
Financial assets for securities business	1,120,684	1,302,753
Loans for credit card business	1,014,708	1,077,006
Investment securities for banking business	157,315	196,803
Loans for banking business	585,800	720,840
Investment securities for insurance business	18,071	23,027
Derivative assets	21,813	19,931
Investment securities	173,076	235,013
Other financial assets	137,678	129,645
Investments in associates and joint ventures	41,130	49,254
Property, plant and equipment	53,271	72,209
Intangible assets	506,087	513,879
Deferred tax assets	25,681	25,388
Other assets	84,001	99,279
Total assets	4,604,672	5,212,207
Liabilities		
Accounts payable – trade	181,279	151,183
Deposits for banking business	1,505,946	1,754,359
Financial liabilities for securities business	1,059,639	1,210,578
Derivative liabilities	6,598	6,672
Bonds and borrowings	711,104	966,570
Other financial liabilities	297,489	295,667
Income taxes payable	12,674	22,692
Provisions	65,235	68,359
Insurance business policy reserve	21,474	20,924
Deferred tax liabilities	18,272	18,581
Other liabilities	42,472	45,577
Total liabilities	3,922,182	4,561,162
Equity		
Equity attributable to owners of the parent company		
Common stock	204,562	205,735
Capital surplus	211,785	213,912
Retained earnings	216,866	283,158
Treasury stock	(3,627)	(93,288)
Other components of equity	52,805	41,489
Total equity attributable to owners of the parent company	682,391	651,006
Non-controlling interests	99	39
Total equity	682,490	651,045
Total liabilities and equity	4,604,672	5,212,207

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

Consolidated Statement of Income (Summary)

(For the nine months ended September 30, 2016 and 2017)

(Millions of yen)

	Nine months ended September 30, 2016 (January 1 to September 30, 2016)	Nine months ended September 30, 2017 (January 1 to September 30, 2017)
Continuing Operations		
Revenue	559,357	676,477
Operating expenses	482,017	595,744
Other income	3,627	46,044
Other expenses	5,296	6,615
Operating income	75,671	120,162
Financial income	217	302
Financial expenses	2,723	2,462
Share of income (loss) of associates and joint ventures	(425)	(7,219)
Income before income tax	72,740	110,783
Income tax expense	28,395	38,229
Net income	44,345	72,554
Net income attributable to:		
Owners of the parent company	44,329	72,647
Non-controlling interests	16	(93)
Net income	44,345	72,554
(Yen)		
Earnings per share attributable to owners of the parent company		
Basic	31.10	52.18
Diluted	30.90	51.73

Consolidated Statement of Income (Summary)
(For the three months ended September 30, 2016 and 2017)

(Millions of yen)

	Three months ended September 30, 2016 (July 1 to September 30, 2016)	Three months ended September 30, 2017 (July 1 to September 30, 2017)
Continuing Operations		
Revenue	190,451	236,387
Operating expenses	163,072	209,017
Other income	116	28,172
Other expenses	1,119	3,996
Operating income	26,376	51,546
Financial income	105	173
Financial expenses	798	762
Share of income (loss) of associates and joint ventures	(575)	(3,594)
Income before income tax	25,108	47,363
Income tax expense	7,729	15,045
Net income	17,379	32,318
Net income attributable to:		
Owners of the parent company	17,344	32,332
Non-controlling interests	35	(14)
Net income	17,379	32,318
(Yen)		
Earnings per share attributable to owners of the parent company		
Basic	12.16	23.70
Diluted	12.08	23.50

Consolidated Statement of Comprehensive Income (Summary)
(For the nine months ended September 30, 2016 and 2017)

(Millions of yen)

	Nine months ended September 30, 2016 (January 1 to September 30, 2016)	Nine months ended September 30, 2017 (January 1 to September 30, 2017)
Net income	44,345	72,554
Other comprehensive income		
Items that will not be reclassified to net income		
Gains (losses) on financial assets measured at fair value through other comprehensive income	(4,360)	(2,698)
Income tax effect of gains and losses on financial assets measured at fair value through other comprehensive income	334	519
Remeasurement of insurance business policy reserves based on current market interest rates	(6,926)	1,615
Income tax effect of remeasurement of insurance business policy reserves based on current market interest rates	1,940	(456)
Share of other comprehensive income of associates and joint ventures	5	4
Total items that will not be reclassified to net income	(9,007)	(1,016)
Items that will be reclassified to net income		
Foreign currency translation adjustments	(74,975)	(9,728)
Gains (losses) on cash flow hedges recognized in other comprehensive income	(556)	(904)
Income tax effect of gains or losses on cash flow hedges recognized in other comprehensive income	162	145
Gains (losses) on cash flow hedges reclassified from other comprehensive income to net income	331	420
Income tax effect of gains or losses on cash flow hedges reclassified from other comprehensive income to net income	(100)	(103)
Share of other comprehensive income of associates and joint ventures	(316)	23
Total items that will be reclassified to net income	(75,454)	(10,147)
Other comprehensive income, net of tax	(84,461)	(11,163)
Comprehensive income	(40,116)	61,391
Comprehensive income attributable to:		
Owners of the parent company	(40,134)	61,484
Non-controlling interests	18	(93)
Comprehensive income	(40,116)	61,391

Consolidated Statement of Comprehensive Income (Summary)
(For the three months ended September 30, 2016 and 2017)

(Millions of yen)

	Three months ended September 30, 2016 (July 1 to September 30, 2016)	Three months ended September 30, 2017 (July 1 to September 30, 2017)
Net income	17,379	32,318
Other comprehensive income		
Items that will not be reclassified to net income		
Gains (losses) on financial assets measured at fair value through other comprehensive income	(1,618)	(892)
Income tax effect of gains and losses on financial assets measured at fair value through other comprehensive income	462	292
Remeasurement of insurance business policy reserves based on current market interest rates	5,068	191
Income tax effect of remeasurement of insurance business policy reserves based on current market interest rates	(1,432)	(54)
Share of other comprehensive income of associates and joint ventures	(0)	2
Total items that will not be reclassified to net income	2,480	(461)
Items that will be reclassified to net income		
Foreign currency translation adjustments	(7,427)	2,670
Gains (losses) on cash flow hedges recognized in other comprehensive income	(114)	(311)
Income tax effect of gains or losses on cash flow hedges recognized in other comprehensive income	33	68
Gains (losses) on cash flow hedges reclassified from other comprehensive income to net income	116	221
Income tax effect of gains or losses on cash flow hedges reclassified from other comprehensive income to net income	(35)	(34)
Share of other comprehensive income of associates and joint ventures	(19)	98
Total items that will be reclassified to net income	(7,446)	2,712
Other comprehensive income, net of tax	(4,966)	2,251
Comprehensive income	12,413	34,569
Comprehensive income attributable to:		
Owners of the parent company	12,381	34,583
Non-controlling interests	32	(14)
Comprehensive income	12,413	34,569

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

(Millions of yen)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity				Total equity attributable to owners of the parent company	Non-controlling interests	Total equity	
					Foreign currency translation adjustments	Financial instruments measured at fair value through other comprehensive income	Cash flow hedges	Remeasurement of insurance business policy reserves based on current market interest rates				
As of January 1, 2016	203,588	208,677	182,711	(3,627)	40,477	36,581	(486)	(1,810)	74,762	666,111	1,969	668,080
Comprehensive income												
Net income	—	—	44,329	—	—	—	—	—	—	44,329	16	44,345
Other comprehensive income net of tax	—	—	—	—	(75,292)	(4,022)	(163)	(4,986)	(84,463)	(84,463)	2	(84,461)
Total comprehensive income	—	—	44,329	—	(75,292)	(4,022)	(163)	(4,986)	(84,463)	(40,134)	18	(40,116)
Transactions with owners												
Contributions by and distributions to owners												
Issuance of common stock	809	810	—	—	—	—	—	—	—	1,619	—	1,619
Cash dividends paid	—	—	(6,410)	—	—	—	—	—	—	(6,410)	—	(6,410)
Reclassification from other components of equity to retained earnings	—	—	3,637	—	—	(3,637)	—	—	(3,637)	—	—	—
Purchase of treasury stock	—	—	—	(0)	—	—	—	—	—	—	(0)	(0)
Others	—	2,983	(1,475)	—	—	—	—	—	—	1,508	—	1,508
Total contributions by and distributions to owners	809	3,793	(4,248)	(0)	—	(3,637)	—	—	(3,637)	(3,283)	—	(3,283)
Changes in ownership interests in subsidiaries												
Issuance of common stock	—	—	—	—	—	—	—	—	—	—	1	1
Acquisitions and disposals of non-controlling interests	—	(2,252)	—	—	—	—	—	—	—	(2,252)	(1,891)	(4,143)
Others	—	70	—	—	—	—	—	—	—	70	(161)	(91)
Total changes in ownership interests in subsidiaries	—	(2,182)	—	—	—	—	—	—	—	(2,182)	(2,051)	(4,233)
Total transactions with owners	809	1,611	(4,248)	(0)	—	(3,637)	—	—	(3,637)	(5,465)	(2,051)	(7,516)
As of September 30, 2016	204,397	210,288	222,792	(3,627)	(34,815)	28,922	(649)	(6,796)	(13,338)	620,512	(64)	620,448
As of January 1, 2017	204,562	211,785	216,866	(3,627)	23,658	33,703	(388)	(4,168)	52,805	682,391	99	682,490
Comprehensive income												
Net income	—	—	72,647	—	—	—	—	—	—	72,647	(93)	72,554
Other comprehensive income net of tax	—	—	—	—	(9,705)	(2,175)	(442)	1,159	(11,163)	(11,163)	0	(11,163)
Total comprehensive income	—	—	72,647	—	(9,705)	(2,175)	(442)	1,159	(11,163)	61,484	(93)	61,391
Transactions with owners												
Contributions by and distributions to owners												
Issuance of common stock	1,173	1,173	—	—	—	—	—	—	—	2,346	—	2,346
Cash dividends paid	—	—	(6,419)	—	—	—	—	—	—	(6,419)	—	(6,419)
Reclassification from other components of equity to retained earnings	—	—	153	—	—	(153)	—	—	(153)	—	—	—
Purchase of treasury stock	—	—	—	(89,580)	—	—	—	—	—	(89,580)	—	(89,580)
Others	—	2,594	(89)	(81)	—	—	—	—	—	2,424	—	2,424
Total contributions by and distributions to owners	1,173	3,767	(6,355)	(89,661)	—	(153)	—	—	(153)	(91,229)	—	(91,229)
Changes in ownership interests in subsidiaries												
Issuance of common stock	—	—	—	—	—	—	—	—	—	—	0	0
Acquisitions and disposals of non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	(1,640)	—	—	—	—	—	—	—	(1,640)	33	(1,607)
Total changes in ownership interests in subsidiaries	—	(1,640)	—	—	—	—	—	—	—	(1,640)	33	(1,607)
Total transactions with owners	1,173	2,127	(6,355)	(89,661)	—	(153)	—	—	(153)	(92,869)	33	(92,836)
As of September 30, 2017	205,735	213,912	283,158	(93,288)	13,953	31,375	(830)	(3,009)	41,489	651,006	39	651,045

(4) Consolidated Statement of Cash Flows (Summary)

(Millions of Yen)

	Nine months ended September 30, 2016 (January 1 to September 30, 2016)	Nine months ended September 30, 2017 (January 1 to September 30, 2017)
Cash flows from operating activities		
Income before income tax	72,740	110,783
Depreciation and amortization	32,935	39,014
Other loss (income)	11,527	(23,833)
Decrease (Increase) in operating receivables	7,827	12,852
Decrease (Increase) in loans for credit card business	(70,513)	(62,151)
Increase (Decrease) in deposits for banking business	105,842	248,255
Net decrease (increase) in call loans for banking business	23,000	—
Decrease (Increase) in loans for banking business	(103,012)	(135,040)
Increase (Decrease) in operating payables	(33,937)	(30,363)
Decrease (Increase) in financial assets for securities business	106,353	(182,357)
Increase (Decrease) in financial liabilities for securities business	(33,282)	151,197
Others	(10,669)	(19,939)
Income tax paid	(48,564)	(21,557)
Net cash flows from (used in) operating activities	60,247	86,861
Cash flows from investing activities		
Increase in restricted deposits	(12)	(11,842)
Decrease in restricted deposits	20,672	11,843
Increase in time deposits	(13,756)	(7,196)
Decrease in time deposits	11,381	15,388
Purchase of property, plant and equipment	(9,957)	(28,218)
Purchase of intangible assets	(30,657)	(32,076)
Acquisition of subsidiaries	(24,719)	(5,844)
Acquisition of investments in associates and joint ventures	(19,278)	(15,772)
Purchase of investment securities for banking business	(181,291)	(235,176)
Proceeds from sales and redemption of investment securities for banking business	264,486	195,413
Purchase of investment securities for insurance business	(8,513)	(12,237)
Proceeds from sales and redemption of investment securities for insurance business	8,290	7,648
Purchase of investment securities	(20,757)	(38,095)
Proceeds from sales and redemption of investment securities	15,469	9,527
Other payments	(2,800)	(11,330)
Other proceeds	1,854	7,175
Net cash flows from (used in) investing activities	10,412	(150,792)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(52,765)	77,947
Increase (Decrease) in commercial papers	2,000	72,000
Proceeds from long-term debt	133,500	176,618
Repayment of long-term debt	(75,728)	(141,334)
Proceeds from issuance of bonds	39,796	99,541
Redemption of bonds	(300)	(30,300)
Cash dividends paid	(6,406)	(6,422)
Purchase of treasury stock	(0)	(89,697)
Others	(6,041)	(1,696)
Net cash flows from financing activities	34,056	156,657
Effect of change in exchange rates on cash and cash equivalents	(8,332)	820
Net increase (decrease) in cash and cash equivalents	96,383	93,546

(Millions of Yen)

	Nine months ended September 30, 2016 (January 1 to September 30, 2016)	Nine months ended September 30, 2017 (January 1 to September 30, 2017)
Cash and cash equivalents at the beginning of the year	501,029	548,269
Cash and cash equivalents at the end of the period	597,412	641,815

(5) Assumptions for going concern

No items to report

(6) Notes to the summary of consolidated financial statements for the nine months ended September 30, 2017

(Basis of preparation)

The Rakuten Group's summary of consolidated financial statements for the nine months ended September 30, 2017 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 ought to be used in combination with the consolidated financial statements for the fiscal year ended December 31, 2016.

(Significant accounting policies)

Significant accounting policies adopted by the Rakuten Group in this summary of consolidated financial statements for the nine months ended September 30, 2017 basically remain the same as those adopted in the consolidated financial statements for the previous fiscal year, except for the items below. In addition, income tax expenses for the nine months ended September 30, 2017 is calculated based upon estimated annual effective tax rate.

Change in method of estimating insurance business policy reserves

With regard to insurance business policy reserves, the Rakuten Group has previously applied the method of measuring of insurance liabilities prescribed by laws and regulations that apply to insurance contracts in Japan. However, from March 31, 2017 accounting periods, in order to measure insurance liabilities according to discount rates based on current market interest and reflect the time value of money, the Rakuten Group has changed to a method that recognizes interest arising from the book value of insurance liabilities during the reporting period under net income, and the amount of fluctuation in insurance liabilities associated with other fluctuations in the discount rate under other comprehensive income.

This change is made in order to reflect in a timely manner, market environment changes in the consolidated financial statements.

This change in accounting policy is applied retroactively, and the quarterly financial statements for the nine months ended September 30, 2016, and the financial statements for the fiscal year ended December 31, 2016, have been prepared after retroactive application of the change.

As a result, compared to before the retroactive application of the change, operating expenses for the nine months ended September 30, 2016 decreased by ¥468 million, and net income increased by ¥387 million. In addition, other comprehensive income, net of tax for the nine months ended September 30, 2016 decreased by ¥4,986 million. When the cumulative effect of the change is reflected in equity attributable to owners of the parent company as of January 1, 2016, the balance of retained earnings as of January 1, 2016 increased by ¥5,877 million, whereas the balance of other components of equity as of January 1, 2016 decreased by ¥1,810 million.

Insurance accounting

Policy Reserves and Others for Insurance Business

In order to measure insurance liabilities according to discount rates based on market interest and reflect the time value of money, the Rakuten Group recognizes interest arising from the book value of insurance liabilities during the reporting period under net income, and the amount of fluctuation in insurance liabilities associated with other fluctuations in the discount rate under other comprehensive income.

A liability adequacy test is performed in consideration of current estimates of cash inflows, such as related insurance premiums and investment income, and cash outflows such as insurance claims and benefits and operating expenses. If the test shows that the liability is inadequate, the entire deficiency is recognized in the consolidated statement of income.

(Significant accounting estimates and judgments)

Preparation of the summary of consolidated financial statements under IFRS for the nine months ended September 30, 2017 involves accounting estimates in respect of certain significant matters. Meanwhile, in the process of adopting accounting policies, management of the Rakuten Group is required to make its own judgments. The result of accounting estimation by its nature could be different from the actual outcome.

Accounting estimates and accounting assumptions are subject to continuous review. Effects of changes in accounting estimates are recognized in the fiscal year in which such changes take place as well as fiscal years that follow.

Estimates and judgments that have significant impact on the amounts in this summary of consolidated financial statements for the nine months ended September 30, 2017 remain the same as those that had significant impact on the amounts in the consolidated financial statements for the previous fiscal year.

(Segment information)

(1) General Information

As a Global Innovation Company engaged in the two main activities of Internet Services and FinTech, the Group Companies were previously organized into three reportable segments: "Internet Services", "FinTech" and "Others". From the third quarter of the previous fiscal year, the Rakuten Group reviewed its internal reporting control framework, following the introduction of an Internal Company System. Accordingly, businesses that had previously comprised the "Others" segment were integrated into the businesses that comprise the "Internet Services" segment.

Discrete financial information for operating results of all operating segments is available, and is regularly reviewed by the Board of Directors of the Group Companies in order to determine the allocation of resources and assess performance.

The "Internet Services" segment comprises businesses running various EC (e-commerce) sites including internet shopping mall Rakuten Ichiba, online cash-back sites, travel booking sites, portal sites and digital content sites, along with business for advertising etc. on these sites. Additionally, this segment includes businesses for the provision of messaging and communication services and management of professional sports teams.

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

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

Operating segment information is reported in accordance with IFRS as stated in the significant accounting policies of the previous fiscal year. 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 has been Non-GAAP operating income—operating income in accordance with IFRS adjusted for unusual items and other adjustment items prescribed by the Rakuten Group.

The management believes that the disclosure of Non-GAAP financial measures facilitates comparison between the Rakuten Group and peer companies in the same industry or comparison of its business results

with those of the prior fiscal years by stakeholders, and can provide useful information in understanding the underlying business results of the Rakuten Group and its future outlook. Unusual items refer to one-off items that Rakuten believes shall be excluded for the purposes of preparing a future outlook based on certain rules. Other adjustment items are those tend to differ depending on the standards applied, therefore less comparable between companies, such as stock-based compensation expenses and amortization of acquisition-related intangible assets.

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

Nine months ended September 30, 2016 (January 1 to September 30, 2016)

(Millions of Yen)

	Internet Services	FinTech	Total
Segment Revenue	394,726	218,790	613,516
Segment Profit (Loss)	40,380	49,166	89,546

Nine months ended September 30, 2017 (January 1 to September 30, 2017)

(Millions of Yen)

	Internet Services	FinTech	Total
Segment Revenue	482,722	243,759	726,481
Segment Profit (Loss)	83,181	53,222	136,403

Three months ended September 30, 2016 (July 1 to September 30, 2016)

(Millions of Yen)

	Internet Services	FinTech	Total
Segment Revenue	135,936	73,045	208,981
Segment Profit (Loss)	14,743	15,526	30,269

Three months ended September 30, 2017 (July 1 to September 30, 2017)

(Millions of Yen)

	Internet Services	FinTech	Total
Segment Revenue	170,388	83,715	254,103
Segment Profit (Loss)	41,639	17,970	59,609

Reconciliation from Segment Revenue to Consolidated Revenue

(Millions of Yen)

	Nine months ended September 30, 2016 (January 1 to September 30, 2016)	Nine months ended September 30, 2017 (January 1 to September 30, 2017)
Segment Revenue	613,516	726,481
Intercompany transactions, etc.	(54,159)	(50,004)
Consolidated Revenue	559,357	676,477

	Three months ended September 30, 2016 (July 1 to September 30, 2016)	Three months ended September 30, 2017 (July 1 to September 30, 2017)
Segment Revenue	208,981	254,103
Intercompany transactions, etc.	(18,530)	(17,716)
Consolidated Revenue	190,451	236,387

Reconciliation from Segment Profit to Income Before Income Tax

(Millions of Yen)

	Nine months ended September 30, 2016 (January 1 to September 30, 2016)	Nine months ended September 30, 2017 (January 1 to September 30, 2017)
Segment Profit	89,546	136,403
Intercompany transactions, etc.*	(465)	(2,813)
Non-GAAP Operating Income*	89,081	133,590
Amortization of Intangible Assets (PPA)	(6,098)	(5,615)
Stock Based Compensation	(5,270)	(5,414)
One-off Items	(2,042)	(2,399)
Operating income*	75,671	120,162
Financial income and expenses	(2,506)	(2,160)
Share of income (loss) of associates and joint ventures	(425)	(7,219)
Income before income tax*	72,740	110,783

	Three months ended September 30, 2016 (July 1 to September 30, 2016)	Three months ended September 30, 2017 (July 1 to September 30, 2017)
Segment Profit	30,269	59,609
Intercompany transactions, etc.*	(77)	(1,760)
Non-GAAP Operating Income*	30,192	57,849
Amortization of Intangible Assets (PPA)	(2,047)	(2,063)
Stock Based Compensation	(1,769)	(1,841)
One-off Items	—	(2,399)
Operating income*	26,376	51,546
Financial income and expenses	(693)	(589)
Share of income (loss) of associates and joint ventures	(575)	(3,594)
Income before income tax*	25,108	47,363

*Note: As stated in "Significant accounting policies," although the Rakuten Group has changed the method of measuring insurance liabilities in relation to insurance business policy reserves, this is not applied retroactively

to segment profit or loss for the nine months and the third quarter ended September 30, 2016. An adjustment to Non-GAAP operating income of ¥468 million and ¥ (43) million are included in intercompany transactions respectively. As a result, compared to before the retroactive application, for the nine months and the third quarter ended September 30, 2016, intercompany transactions, etc., Non-GAAP operating income, operating income, and income before income taxes each increased by ¥468 million and decreased by ¥43 million respectively.

One-off items recorded in the nine months ended September 30, 2016 included expenses associated with the strategic review of European business. One-off items recorded in the nine months ended September 30, 2017 and third quarter of the current fiscal year include an impairment loss on fixed assets.

Breakdown of Operating Expenses

(Millions of Yen)

	Nine months ended September 30, 2016 (January 1 to September 30, 2016)	Nine months ended September 30, 2017 (January 1 to September 30, 2017)
Advertising and promotion expenditures	82,740	103,011
Employee benefits expenses	108,059	118,770
Depreciation and amortization	32,935	39,014
Communication and maintenance expenses	15,147	16,478
Consignment and subcontract expenses	29,254	33,090
Allowance for doubtful accounts charged to expenses	19,811	21,042
Cost of sales of merchandise and service revenue	106,022	159,642
Interest expense for finance business	4,238	4,063
Commission expense for finance business	6,419	7,209
Insurance claims and other payments, and provision of policy reserves and others for insurance business	12,216	10,694
Others	65,176	82,731
Total	482,017	595,744

	Three months ended September 30, 2016 (July 1 to September 30, 2016)	Three months ended September 30, 2017 (July 1 to September 30, 2017)
Advertising and promotion expenditures	29,316	36,982
Employee benefits expenses	35,728	40,302
Depreciation and amortization	11,077	13,835
Communication and maintenance expenses	4,963	5,684
Consignment and subcontract expenses	10,148	11,615
Allowance for doubtful accounts charged to expenses	6,453	7,494
Cost of sales of merchandise and service revenue	35,728	56,620
Interest expense for finance business	1,202	1,427
Commission expense for finance business	2,171	2,410
Insurance claims and other payments, and provision of policy reserves and others for insurance business	4,171	3,643
Others	22,115	29,005
Total	163,072	209,017

Notes on significant subsequent events

Borrowing of Substantial Amount of Funds

The Company conducted the borrowing of funds as follows, based on a resolution of the Board of Directors meeting held on August 7, 2017.

- | | |
|------------------------------|--|
| (1) Purpose of loans: | Working Capital |
| (2) Lenders: | Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Trust Bank, Limited, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Development Bank of Japan Inc. |
| (3) Amount of loans: | ¥100,000 million |
| (4) Interest rate: | Basic interest rate + spread |
| (5) Effective date of loans: | October 3, 2017 |
| (6) Date of repayment: | September 30, 2027 |