The following information was originally prepared and published by the Company in Japanese as it contains timely disclosure materials to be submitted to the Tokyo Stock Exchange. This English summary translation is for your convenience only. To the extent there is any discrepancy between this English translation and the original Japanese version, please refer to the Japanese version. The following financial information was prepared in accordance with International Financial Reporting Standards ("IFRS").

Consolidated Financial Reports (IFRS)
For the three months ended March 31, 2018

Rakuten, Inc.
May 10, 2018

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)	Kenji Hirose	

Supplementary materials for financial results: Yes
Financial results information meeting held: Yes (For institutional investors and analysts)

1. Consolidated Results for the three months ended March 31, 2018 (January 1 – March 31, 2018)

(Yen amounts are rounded to the nearest million)

(1) Consolidated Operating Results

(%, YoY)

	Revenue		Operating income		Income before income tax		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended March 31, 2018	241,871	14.0	28,098	(30.5)	25,922	(32.2)	17,417	(30.4)
Three months ended March 31, 2017	212,077	17.6	40,416	73.2	38,214	68.9	25,030	107.0

	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
Three months ended March 31, 2018	17,421	(30.5)	(19,052)	—	12.93	12.83
Three months ended March 31, 2017	25,060	107.3	3,080	—	17.63	17.53

(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 March 31, 2018	6,501,176	625,632	625,095	9.6
As of December 31, 2017	6,184,299	683,408	683,181	11.0

2. Dividend Distribution

	Annual dividend per share				
	Q1	Q2	Q3	Q4	Total
	Yen	Yen	Yen	Yen	Yen
FY2017	—	0.00	—	4.50	4.50
FY2018	—				
FY2018 (Forecast)		—	—	—	—

Note: Dividend per share for FY2018 is not yet decided, and there are no changes to this previously disclosed dividend forecast.

3. Estimate of Consolidated Operating Results for Fiscal 2018 (January 1 to December 31, 2018)

For the estimate of consolidated operating results for Fiscal 2018, double-digit growth from Fiscal 2017 is targeted for consolidated revenues excluding the securities business whose results are heavily impacted by stock market conditions.

For details, see page P. 14, 2. 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: Yes
2. Changes in accounting policies due to other reasons: No
3. Changes in accounting estimates: No

Note: For details, see page 13, 2. Consolidated Financial Statements (Summary) and Major Notes (6) Notes to the summary of consolidated financial statements for the three months ended March 31, 2018 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)
   1,434,573,900 shares (As of March 31, 2018)
   1,434,573,900 shares (As of December 31, 2017)
2. Number of treasury stocks at the end of the period
   87,088,638 shares (As of March 31, 2018)
   87,913,138 shares (As of December 31, 2017)
3. Average number of shares during the period (cumulative from the beginning of the year)
   1,347,074,076 shares (January 1 – March 31, 2018)
   1,421,120,290 shares (January 1 – March 31, 2017)

This financial report is not subject to audit.

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

Consolidated forecasts for the year ending December 31, 2018 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 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. Management believes that the disclosure of Non-GAAP financial measures facilitates comparison between the Rakuten Group and peer companies in the same industry, in addition to 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 Three Months Ended March 31, 2018 (Non-GAAP basis)

The world economy during the three months ended March 31, 2018 has been recovering gradually, mainly in the U.S., although attention must be paid to factors including the outlook for China and other emerging Asian nations and uncertainty regarding government policies. The Japanese economy also saw an ongoing gradual recovery trend amid continuing improvement in the wage and employment environment, as a result of increased capital investment and production by companies.

In June 2017, the Japanese government adopted the “Investments for the Future Strategy 2017” and “Basic Policy on Economic and Fiscal Management and Reform 2017” by Cabinet decision. These initiatives recognize the need to incorporate innovations such as IoT (Internet of Things), Big Data, AI (Artificial Intelligence), robotics, and the sharing economy throughout all industries and society as a whole.

Under such an environment, the Rakuten Group is at the forefront of corporate efforts to combine knowledge from these fields in order to accelerate the development of businesses, bringing together membership, Big Data, and branding. 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 aggressively implementing various measures. These include sales promotion activities to cultivate loyal customers and win new users, programs aimed at improving customer satisfaction, strategies to enhance services for smart 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. In the FinTech segment, further expansion of Rakuten Card’s membership base brought in more commission income, and expansion of banking services and the strong domestic stock market had a positive effect on securities services. In addition, the Rakuten Group continues to make upfront investments related to partnership contracts for the purpose of strengthening the Rakuten brand and acquiring membership.

Through these efforts, the Rakuten Group achieved revenue of ¥241,871 million, up 14% year-on-year, for the three months ended March 31, 2018. Non-GAAP operating income decreased by 27.4% year-on-year to ¥31,843 million, reflecting unrealized gains on stocks recorded in the investment business during the three months ended March 31, 2017.

(Non-GAAP)

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018	Amount Change YoY	% Change YoY
Revenue	212,077	241,871	29,794	14.0%
Non-GAAP Operating Income	43,851	31,843	(12,008)	(27.4%)

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

For the three months ended March 31, 2018, amortization of intangible assets of ¥1,754 million and stock-based compensation expenses of ¥1,991 million were excluded from Non-GAAP operating income.

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018	Amount Change YoY
Non-GAAP operating income	43,851	31,843	(12,008)
Amortization of intangible assets	(1,558)	(1,754)	(196)
Stock based compensation	(1,877)	(1,991)	(114)
One-off items	-	-	-
Operating Income	40,416	28,098	(12,318)

iii) Business Results for the Three Months Ended March 31, 2018 (IFRS basis)

The Rakuten Group recorded revenue of ¥241,871 million, up 14.0% year-on-year, operating income of ¥28,098 million, down 30.5% year-on-year, and net income attributable to owners of the parent company of ¥17,421 million, down 30.5% year-on-year, for the three months ended March 31, 2018.

(IFRS)

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018	Amount Change YoY	% Change YoY
Revenue	212,077	241,871	29,794	14.0%
Operating income	40,416	28,098	(12,318)	(30.5%)
Net income attributable to owners of the parent company	25,060	17,421	(7,639)	(30.5%)

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 three months ended March 31, 2018, the Rakuten Group aims for further revenue growth in the mainstay domestic e-commerce services, and 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 their full-scale aggressive sales activities.

As a result, revenue for the Internet Service segment rose to ¥173,453 million, a 16.3% year-on-year increase, while segment profit stood at ¥14,627 million, a 44.9% decrease, due to reaction against unrealized gains on stocks recorded in the investment business during the three months ended March 31, 2017.

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018	Amount Change YoY	% Change YoY
Segment Revenue	149,086	173,453	24,367	16.3%
Segment Profit	26,548	14,627	(11,921)	(44.9%)

FinTech

In the FinTech segment for the three months ended March 31, 2018, shopping transaction value and revolving balances in credit card related services increased due to growth in Rakuten Card membership, resulting in a steady rise in revenue and profit. In banking services, revenue and profit continued to expand despite the backdrop of a negative interest rate policy, due to an increase in interest income from growing loan balances and improvements in cost efficiency. Securities services also contributed to the steady increase in revenue and profit owing to the impact of a strong domestic stock market.

As a result, the FinTech segment recorded ¥90,014 million in revenue, a 15.5% year-on-year increase, while segment profit stood at ¥20,591 million, a 20.9% year-on-year increase.

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018	Amount Change YoY	% Change YoY
Segment Revenue	77,960	90,014	12,054	15.5%
Segment Profit	17,032	20,591	3,559	20.9%

(2) Analysis Concerning Financial Position

i) Assets, Liabilities, and Net Assets

Assets

Total assets as of March 31, 2018 amounted to ¥6,501,176 million, an increase of ¥316,877 million from ¥6,184,299 million at the end of the previous fiscal year. The primary factors were a decrease of ¥58,713 million in financial assets for securities business and a decrease of ¥42,906 million in loans for credit card business, which were offset by an increase of ¥261,191 million in investment securities for insurance business and an increase of ¥109,946 million in other financial assets mainly due to making Asahi Fire & Marine Insurance Co., Ltd. a subsidiary.

Liabilities

Total liabilities as of March 31, 2018 amounted to ¥5,875,544 million, an increase of ¥374,653 million from ¥5,500,891 million at the end of the previous fiscal year. The primary factors were a decrease of ¥73,212 million in financial liabilities for securities business, which was offset by an increase of ¥323,012 million in policy reserves and others for insurance business and an increase of ¥157,113 million in bonds and borrowings mainly due to making Asahi Fire & Marine Insurance Co., Ltd. a subsidiary.

Equity

Equity as of March 31, 2018 was ¥625,632 million, a decrease of ¥57,776 million from ¥683,408 million at the end of the previous fiscal year. The primary factors were a decrease of ¥36,324 million in other components of equity resulting from fluctuations in the foreign exchange rates, etc., and a decrease of ¥23,956 million in retained earnings due to application of IFRS 9 “Financial Instruments” (2014), etc.

ii) Cash Flows

Cash and cash equivalents as of March 31, 2018 was ¥734,775 million, an increase of ¥33,894 million from the end of the previous fiscal year. Among these, deposits with the Bank of Japan for banking business were ¥444,077 million, a decrease of ¥31,601 million from the end of the previous fiscal year. Cash flow conditions and their major factors for the three months ended March 31, 2018 are as follows.

Net cash flows from operating activities

Net cash flows from operating activities for the three months ended March 31, 2018 resulted in a cash outflow of ¥103,559 million (compared with a cash outflow of ¥61,953 million for the same period of the previous fiscal year). Primary factors included a cash inflow of ¥58,196 million due to a decrease in financial assets for the securities business, which was offset by a cash outflow of ¥20,000 million due to an increase in call loans for the banking business, a cash outflow of ¥45,261 million due to an increase in loans for the banking business, a cash outflow of ¥28,913 million from a decrease in operating payables, and a cash outflow of ¥72,721 million from a decrease in financial liabilities for the securities business.

Net cash flows from investing activities

Net cash flows from investing activities for the three months ended March 31, 2018 resulted in a cash outflow of ¥9,428 million (compared with a cash outflow of ¥66,394 million in the same period of the previous fiscal year). Primary factors included a net inflow of ¥4,903 million due to purchase and sale, etc. of investment securities for the banking business (a cash inflow of ¥92,954 million from sales and redemption of investment securities and a cash outflow of ¥88,051 million for purchase of investment securities), offset by a cash outflow of ¥11,453 million due to purchase of intangible assets including software.

Net cash flows from financing activities

Net cash flows from financing activities for the three months ended March 31, 2018 resulted in a cash inflow of ¥150,630 million (compared with a cash inflow of ¥97,042 million in the same period of the previous fiscal year). Primary factors included a cash outflow of ¥74,358 million for repayment of long-term debt, which was offset by a cash inflow of ¥87,052 million from an increase in short-term borrowings, a cash inflow of ¥53,000 million from an increase in commercial papers, and a cash inflow of ¥91,499 million from long-term debt.

(3) Qualitative Information about Consolidated Business Forecasts

For the forecast of consolidated operating results for Fiscal 2018, the Rakuten Group aims at double-digit growth from the previous fiscal year for consolidated revenues, excluding results from the securities business which are impacted substantially by the stock market.

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

Internet Services

In services including e-commerce and travel booking services, the Rakuten Group will aim for further growth in gross transaction value and revenue by pursuing various initiatives, including cultivating a loyal customer base, winning new users, improving customer satisfaction, promoting strategies for opening up the Rakuten Ecosystem, and enhancing services for smart devices. The Rakuten Group will also seek to create new markets through the use of technologies such as big data and AI. In media and communication services such as Rakuten Mobile and Viber, we aim to increase revenue by expanding the Rakuten Ecosystem’s membership base and providing new value to users.

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. In banking services, a solid expansion of operations is expected due to steady accumulation of loan balances. Meanwhile, expenses are expected to grow in both of these services due to the application of IFRS 9 “Financial Instruments” (2014), etc. In insurance services, revenue and operating income are expected to increase at Asahi Fire & Marine Insurance Co., Ltd., which was made a subsidiary in March 2018. 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, 2017	As of March 31, 2018
Assets		
Cash and cash equivalents	700,881	734,775
Accounts receivable – trade	128,057	105,724
Financial assets for securities business	1,889,157	1,830,444
Loans for credit card business	1,223,195	1,180,289
Investment securities for banking business	203,161	198,147
Loans for banking business	753,419	787,223
Investment securities for insurance business	21,803	282,994
Derivative assets	19,978	30,191
Investment securities	261,588	255,057
Other financial assets	176,427	286,373
Investments in associates and joint ventures	54,481	51,558
Property, plant and equipment	73,171	77,410
Intangible assets	526,862	513,825
Deferred tax assets	36,472	46,874
Other assets	115,647	120,292
Total assets	6,184,299	6,501,176
Liabilities		
Accounts payable – trade	202,874	172,230
Deposits for banking business	1,946,142	1,940,514
Financial liabilities for securities business	1,790,388	1,717,176
Derivative liabilities	6,918	5,939
Bonds and borrowings	1,015,781	1,172,894
Other financial liabilities	351,779	354,996
Income taxes payable	13,264	14,458
Provisions	76,104	75,693
Insurance business policy reserve	22,050	345,062
Deferred tax liabilities	30,541	24,433
Other liabilities	45,050	52,149
Total liabilities	5,500,891	5,875,544
Equity		
Equity attributable to owners of the parent company		
Common stock	205,924	205,924
Capital surplus	217,185	218,407
Retained earnings	320,397	296,441
Treasury stock	(103,616)	(102,644)
Other components of equity	43,291	6,967
Total equity attributable to owners of the parent company	683,181	625,095
Non-controlling interests	227	537
Total equity	683,408	625,632
Total liabilities and equity	6,184,299	6,501,176

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

Consolidated Statement of Income (Summary)

(For the three months ended March 31, 2017 and 2018)

(Millions of yen)

	Three months ended March 31, 2017 (January 1 to March 31, 2017)	Three months ended March 31, 2018 (January 1 to March 31, 2018)
Continuing Operations		
Revenue	212,077	241,871
Operating expenses	187,613	220,004
Other income	17,188	6,652
Other expenses	1,236	421
Operating income	40,416	28,098
Financial income	56	147
Financial expenses	757	896
Share of income (loss) of associates and joint ventures	(1,501)	(1,427)
Income before income tax	38,214	25,922
Income tax expense	13,184	8,505
Net income	25,030	17,417
Net income attributable to:		
Owners of the parent company	25,060	17,421
Non-controlling interests	(30)	(4)
Net income	25,030	17,417

(Yen)

Earnings per share attributable to owners of the parent company		
Basic	17.63	12.93
Diluted	17.53	12.83

Consolidated Statement of Comprehensive Income (Summary)
(For the three months ended March 31, 2017 and 2018)

(Millions of yen)

	Three months ended March 31, 2017 (January 1 to March 31, 2017)	Three months ended March 31, 2018 (January 1 to March 31, 2018)
Net income	25,030	17,417
Other comprehensive income		
Items that will not be reclassified to net income		
Gains (losses) on equity instruments measured at fair value through other comprehensive income	(2,385)	(1,907)
Income tax effect of gains and losses on equity instruments measured at fair value through other comprehensive income	456	(0)
Remeasurement of insurance business policy reserves based on current market interest rates	1,353	(744)
Income tax effect of remeasurement of insurance business policy reserves based on current market interest rates	(382)	208
Share of other comprehensive income of associates and joint ventures	3	(1)
Total items that will not be reclassified to net income	(955)	(2,444)
Items that will be reclassified to net income		
Foreign currency translation adjustments	(20,494)	(33,499)
Gains (losses) on debt instruments measured at fair value through other comprehensive income	—	203
Allowances for doubtful debts on debt instruments measured at fair value through other comprehensive income	—	9
Gains (losses) on debt instruments measured at fair value through other comprehensive income reclassified from other comprehensive income to net income	—	(2)
Income tax effect of gains or losses on debt instruments measured at fair value through other comprehensive income	—	(61)
Gains (losses) on cash flow hedges recognized in other comprehensive income	(374)	147
Income tax effect of gains or losses on cash flow hedges recognized in other comprehensive income	70	9
Gains (losses) on cash flow hedges reclassified from other comprehensive income to net income	93	113
Income tax effect of gains or losses on cash flo hedges reclassified from other comprehensive income to net income	(32)	(33)
Share of other comprehensive income of associates and joint ventures	(258)	(911)
Total items that will be reclassified to net income	(20,995)	(34,025)
Other comprehensive income, net of tax	(21,950)	(36,469)
Comprehensive income	3,080	(19,052)
Comprehensive income attributable to:		
Owners of the parent company	3,109	(19,048)
Non-controlling interests	(29)	(4)
Comprehensive income	3,080	(19,052)

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

(Millions of yen)

					Other components of equity							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Foreign currency translation adjustments	Financial instruments measured at fair value through other comprehensive income	Cash flow hedges	Remeasurement of insurance business policy reserves based on current market interest rates	Total other components of equity	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
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			25,060							25,060	(30)	25,030
Other comprehensive income net of tax					(20,752)	(1,926)	(244)	971	(21,951)	(21,951)	1	(21,950)
Total comprehensive income	—	—	25,060	—	(20,752)	(1,926)	(244)	971	(21,951)	3,109	(29)	3,080
Transactions with owners												
Contributions by and distributions to owners												
Issuance of common stock	108	107								215		215
Cash dividends paid			(6,419)							(6,419)		(6,419)
Reclassification from other components of equity to retained earnings			32			(32)			(32)	—		—
Purchase of treasury stock				(23,600)						(23,600)		(23,600)
Disposal of treasury stock associated with execution of stock options		—		—						—		—
Others		1,542	(112)	(2)						1,428		1,428
Total contributions by and distributions to owners	108	1,649	(6,499)	(23,602)	—	(32)	—	—	(32)	(28,376)	—	(28,376)
Changes in ownership interests in subsidiaries												
Issuance of common stock											—	—
Acquisitions and disposals of non-controlling interests		—								—	—	—
Others		4								4	13	17
Total changes in ownership interests in subsidiaries	—	4	—	—	—	—	—	—	—	4	13	17
Total transactions with owners	108	1,653	(6,499)	(23,602)	—	(32)	—	—	(32)	(28,372)	13	(28,359)
As of March 31, 2017	204,670	213,438	235,427	(27,229)	2,906	31,745	(632)	(3,197)	30,822	657,128	83	657,211
As of January 1, 2018	205,924	217,185	320,397	(103,616)	15,586	31,866	(664)	(3,497)	43,291	683,181	227	683,408
Cumulative effects of change in accounting policy	—	—	(35,421)	—	—	315	—	—	315	(35,106)	—	(35,106)
Opening Balance reflecting change in accounting policy	205,924	217,185	284,976	(103,616)	15,586	32,181	(664)	(3,497)	43,606	648,075	227	648,302
Comprehensive income												
Net income			17,421							17,421	(4)	17,417
Other comprehensive income net of tax					(34,410)	(1,759)	236	(536)	(36,469)	(36,469)	—	(36,469)
Total comprehensive income	—	—	17,421	—	(34,410)	(1,759)	236	(536)	(36,469)	(19,048)	(4)	(19,052)
Transactions with owners												
Contributions by and distributions to owners												
Issuance of common stock	—	—								—		—
Cash dividends paid			(6,060)							(6,060)		(6,060)
Reclassification from other components of equity to retained earnings			170			(170)			(170)	—		—
Purchase of treasury stock				—						—		—
Disposal of treasury stock associated with execution of stock options		(777)		972						195		195
Others		1,999	(66)	—						1,933		1,933
Total contributions by and distributions to owners	—	1,222	(5,956)	972	—	(170)	—	—	(170)	(3,932)	—	(3,932)

Changes in ownership interests in subsidiaries												
Issuance of common stock											—	—
Acquisitions and disposals of non-controlling interests		—								—	—	—
Others		—								—	314	314
Total changes in ownership interests in subsidiaries	—	—	—	—	—	—	—	—	—	—	314	314
Total transactions with owners	—	1,222	(5,956)	972	—	(170)	—	—	(170)	(3,932)	314	(3,618)
As of March 31, 2018	205,924	218,407	296,441	(102,644)	(18,824)	30,252	(428)	(4,033)	6,967	625,095	537	625,632

Rakuten

(4) Consolidated Statement of Cash Flows (Summary)

(Millions of Yen)

	Three months ended March 31, 2017 (January 1 to March 31, 2017)	Three months ended March 31, 2018 (January 1 to March 31, 2018)
Cash flows from operating activities		
Income before income tax	38,214	25,922
Depreciation and amortization	11,947	15,638
Other loss (income)	(11,243)	1,712
Decrease (Increase) in operating receivables	17,677	19,464
Decrease (Increase) in loans for credit card business	4,206	2,627
Increase (Decrease) in deposits for banking business	45,605	(5,428)
Net decrease (increase) in call loans for banking business	(20,000)	(20,000)
Decrease (Increase) in loans for banking business	(53,312)	(45,261)
Increase (Decrease) in operating payables	(34,798)	(28,913)
Decrease (Increase) in financial assets for securities business	(28,971)	58,196
Increase (Decrease) in financial liabilities for securities business	(479)	(72,721)
Others	(21,490)	(50,508)
Income tax paid	(9,309)	(4,287)
Net cash flows from (used in) operating activities	(61,953)	(103,559)
Cash flows from investing activities		
Increase in restricted deposits	(15,238)	(2)
Increase in time deposits	(1,571)	(1,616)
Decrease in time deposits	2,598	1,040
Purchase of property, plant and equipment	(22,379)	(2,650)
Purchase of intangible assets	(12,020)	(11,453)
Acquisition of subsidiaries	(4,393)	(2,931)
Proceeds from acquisition of subsidiaries	–	3,010
Purchase of investment securities for banking business	(79,006)	(88,051)
Proceeds from sales and redemption of investment securities for banking business	69,777	92,954
Purchase of investment securities for insurance business	(4,228)	(3,547)
Proceeds from sales and redemption of investment securities for insurance business	2,505	5,904
Purchase of investment securities	(2,759)	(3,594)
Proceeds from sales and redemption of investment securities	3,797	2,488
Other payments	(4,339)	(1,824)
Other proceeds	862	844
Net cash flows from (used in) investing activities	(66,394)	(9,428)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	81,198	87,052
Increase (Decrease) in commercial papers	28,000	53,000
Proceeds from long-term debt	79,011	91,499
Repayment of long-term debt	(60,459)	(74,358)
Cash dividends paid	(6,366)	(6,010)
Purchase of treasury stock	(23,602)	–
Others	(740)	(553)
Net cash flows from financing activities	97,042	150,630
Effect of change in exchange rates on cash and cash equivalents	(1,532)	(3,749)
Net increase (decrease) in cash and cash equivalents	(32,837)	33,894
Cash and cash equivalents at the beginning of the year	548,269	700,881
Cash and cash equivalents at the end of the period	515,432	734,775

(5) Assumptions for going concern

No items to report

(6) Notes to the summary of consolidated financial statements for the three months ended March 31, 2018

Basis of preparation

The Rakuten Group's summary of consolidated financial statements for the three months ended March 31, 2018 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, 2017.

Significant accounting policies

Significant accounting policies adopted by the Rakuten Group in this summary of consolidated financial statements for the three months ended March 31, 2018 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 three months ended March 31, 2018 is calculated based upon estimated annual effective tax rate.

Adoption of IFRS 9 (2014)

While the Rakuten Group has until now adopted IFRS 9 (2010), it now adopts IFRS 9 (2014) as of the first quarter ended March 31, 2018.

IFRS		Description of the revision
IFRS 9	Financial instruments	Revisions concerning the classification, measurement and impairment of financial assets and hedge accounting

Accordingly, revisions are made to provisions regarding (1) classification and measurement of financial assets, (2) impairment of financial assets, (3) hedge accounting. Specific detail of the revision in each category and their financial impacts are as follows.

The Rakuten Group applies the revised provisions of IFRS 9, pursuant to the relevant transitional arrangements, thereby recognizing the cumulative effects of the adoption in the form of adjustments to retained earnings for the current fiscal year, and other components of equity at the beginning of the current fiscal year.

(1) Classification and measurement of financial assets

Following the revision of IFRS 9, a classification was newly established in which debt instruments are subjected to subsequent measurement of fair value through other comprehensive income. The Group evaluates the business model involving the holding of such financial instruments at the beginning of the current fiscal year, along with the terms of contract involved therein, whereby the financial instruments are, insofar as they meet the following criteria, subjected to subsequent measurement of fair value through other comprehensive income.

・If the financial instruments are held for the purpose of both the contractual collection and eventual sale of cash flows, under the business model of the Rakuten Group.

・If the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

As a result, part of debt instruments subjected to subsequent measurement at amortized costs and the debt instruments subjected to subsequent measurement at fair value through net income prior to the adoption of IFRS 9 (2014) were reclassified, so that they are now subjected to subsequent measurement at fair value through other comprehensive income.

Accordingly, compared with the case where the previous accounting standards would be applied, investment securities for banking business, investment securities for insurance business, deferred tax liabilities, and other components of equity increased by ¥14 million, ¥349 million, ¥105 million, and ¥258 million, respectively, at the beginning of the current fiscal year.

(2) Impairment of financial assets

The Rakuten Group applies the provisions of IFRS 9 concerning the impairment of financial assets as follows.

As for financial assets measured at amortized costs, and debt instruments measured at fair value through other comprehensive income, the Rakuten Group calculates the amount of allowance for doubtful accounts based on the estimated credit loss arising from the possible defaults during the 12 months after the end of the fiscal year (estimated credit loss for the 12 months), if the credit risk associated with the financial instruments has not significantly increased in the period between its initial recognition and the fiscal year-end. In such cases specifically, the amount of allowance for doubtful accounts associated with financial instruments is collectively calculated by forecasting the estimated credit loss for the next 12 months, based on available rational data for predictive analysis, such as the historical loan loss ratio and published default rate. On the other hand, if the credit risk associated with the financial instruments has significantly increased in the period between its initial recognition and the fiscal year-end, allowance for doubtful accounts is calculated based on the estimated credit loss arising from all possible defaults over the estimated remaining period of the financial instruments (estimated credit loss over the entire period). In such cases specifically, the amount of allowance for doubtful accounts associated with financial instruments is individually calculated by forecasting the estimated credit loss associated with the collection of said financial instruments for the entire period, based on available rational data for predictive analysis, such as the historical loan loss ratio, future collectible amount and published default rate.

However, notwithstanding the above, however, with respect to operating receivables and contractual assets that do not contain critical financial elements, such as accounts receivables – trade (hereinafter the “operating receivables, etc.”), the amount of allowance for doubtful accounts is invariably calculated based on the estimated credit loss over the entire period. As a general rule, estimated credit loss is collectively measured in consideration of available rational data for predictive analysis, such as the historical loan loss ratio, based on the operating receivables, etc. grouped by type of attribute of clients.

For financial assets with overdue periods of a certain threshold, those considered to pose significant concern about the recoverability due to factors such as serious financial distress at the obligor shall be deemed to be credit-impaired.

Accordingly, compared with the case where the previous accounting standards would be applied, allowance for doubtful accounts increased by ¥50,679 million, while retained earnings decreased by ¥35,421 million and other components of equity increased by ¥57 million at the beginning of the current fiscal year. Also compared with the case where the previous accounting standards would be applied, operating revenue increased by ¥90 million, while operating expenses decreased by ¥1,383 million and net income increased by ¥1,021 million in the three months ended March 31, 2018.

Adjustments to the allowance for doubtful accounts as at December 31, 2017 and that at the beginning of the current fiscal year were as follows.

(Millions of yen)

	Financial assets measured at amortized costs	Debt instruments measured at fair value through other comprehensive income
Allowance for doubtful accounts as at December 31, 2017 (calculated based on IFRS 9 before the revision)	42,202	48
Amount by retrospective restatement at the beginning of the current fiscal year.	50,727	34
Allowance for doubtful accounts at the beginning of the current fiscal year as at January 1, 2018 (calculated based on IFRS 9)	92,929	82

Note: Debt instruments measured at fair value through other comprehensive income have been reclassified, at the beginning of the current fiscal year, from the financial assets measured at amortized costs, as well as the financial assets measured at fair value through net income.

(3) Hedge accounting

The Rakuten Group, pursuant to the provisions of hedge accounting under IFRS 9, treats items that qualify for hedge accounting not only under IAS 39 "Financial Instruments: Recognition and Measurement," but also under IFRS 9 as continuous hedging relationships.

Significant accounting estimates and judgments

Preparation of the summary of consolidated financial statements under IFRS for the three months ended March 31, 2018 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 three months ended March 31, 2018 remain the same as those that had significant impact on the amounts in the consolidated financial statements for the previous fiscal year, excluding the case below.

Impairment of debt instruments measured at fair value through amortized costs and other comprehensive income

The Rakuten Group recognizes the estimated credit loss in respect of financial assets measured at amortized costs and debt instruments measured at fair value through other comprehensive income, at the present value of the difference between the future contractual cash flows to be received, and the future contractual cash flows expected to be received.

Estimation of the future cash flows is carried out in consideration of factors including the possibility of default, the historical trend concerning the amount of credit loss, and reasonably expected future events. Since these accounting estimates and accounting assumptions may, if the preconditions involved therein vary, make a significant difference to the amount of impairment loss of the debt instruments measured at fair value through amortized costs and other comprehensive income, the Rakuten Group believes that such estimations are significant.

Segment information

1. General Information

As a Global Innovation Company engaged in the two main activities of Internet Services and FinTech, the Group Companies are organized into two reportable segments: "Internet Services" and "FinTech".

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 businesses providing advertising etc. on these sites and messaging and communication services, as well as businesses running management of professional sports teams, etc.

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

Three months ended March 31, 2017 (January 1 to March 31, 2017)

(Millions of Yen)

	Internet Services	FinTech	Total
Segment Revenue	149,086	77,960	227,046
Segment Profit (Loss)	26,548	17,032	43,580

Three months ended March 31, 2018 (January 1 to March 31, 2018)

(Millions of Yen)

	Internet Services	FinTech	Total
Segment Revenue	173,453	90,014	263,467
Segment Profit (Loss)	14,627	20,591	35,218

Note: As stated in “Significant accounting policies,” the Rakuten Group adopted IFRS 9 (2014) in the first quarter ended March 31, 2018. As a result, segment profit at the Internet Service segment increased by ¥1 million, while revenue and segment profit at the FinTech segment increased by ¥90 million and ¥1,472 million, respectively, compared with the case where previous accounting standards would be applied.

Reconciliation from Segment Revenue to Consolidated Revenue

(Millions of Yen)

	Three months ended March 31, 2017 (January 1 to March 31, 2017)	Three months ended March 31, 2018 (January 1 to March 31, 2018)
Segment Revenue	227,046	263,467
Intercompany transactions, etc.	(14,969)	(21,596)
Consolidated Revenue	212,077	241,871

Reconciliation from Segment Profit to Income Before Income Tax

(Millions of Yen)

	Three months ended March 31, 2017 (January 1 to March 31, 2017)	Three months ended March 31, 2018 (January 1 to March 31, 2018)
Segment Profit	43,580	35,218
Intercompany transactions, etc.	271	(3,375)
Non-GAAP Operating Income	43,851	31,843
Amortization of Intangible Assets	(1,558)	(1,754)
Stock Based Compensation	(1,877)	(1,991)
Operating income	40,416	28,098
Financial income and expenses	(701)	(749)
Share of income (loss) of associates and joint ventures	(1,501)	(1,427)
Income before income tax	38,214	25,922

Breakdown of Operating Expenses

(Millions of Yen)

	Three months ended March 31, 2017 (January 1 to March 31, 2017)	Three months ended March 31, 2018 (January 1 to March 31, 2018)
Advertising and promotion expenditures	32,174	41,082
Employee benefits expenses	39,005	41,143
Depreciation and amortization	11,947	14,543
Communication and maintenance expenses	5,329	6,194
Consignment and subcontract expenses	10,403	12,190
Allowance for doubtful accounts charged to expenses	6,406	8,654
Cost of sales of merchandise and service revenue	48,394	59,356
Interest expense for finance business	1,264	1,540
Commission expense for finance business	2,349	2,560
Insurance claims and other payments, and provision of policy reserves and others for insurance business	3,659	3,216

Others	26,683	29,526
Total	187,613	220,004

Notes on significant subsequent events

No items to report