

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 six months ended June 30, 2019

Rakuten, Inc.  
August 8, 2019

Company name	Rakuten, Inc.	Listed	Tokyo Stock Exchange
Code No	4755	URL	<a href="https://www.rakuten.co.jp/">https://www.rakuten.co.jp/</a>
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 six months ended June 30, 2019 (January 1 – June 30, 2019)

(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	%
Six months ended June 30, 2019	586,644	14.5	111,895	24.8	110,254	28.1	99,903	54.9
Six months ended June 30, 2018	512,161	16.4	89,670	30.7	86,101	35.8	64,514	60.3

	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
Six months ended June 30, 2019	100,249	55.4	94,083	83.1	74.10	73.03
Six months ended June 30, 2018	64,522	60.0	51,378	91.6	47.86	47.49

#### (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 June 30, 2019	8,035,876	867,346	865,617	10.8
As of December 31, 2018	7,345,002	776,207	774,473	10.5

## 2. Dividend Distribution

	Annual dividend per share				
	Q1	Q2	Q3	Q4	Total
	Yen	Yen	Yen	Yen	Yen
FY2018	—	0.00	—	4.50	4.50
FY2019	—	0.00			
FY2019 (Forecast)			—	—	—

Note: Dividend per share for the fiscal year ending December 31, 2019 has not been decided yet, and there are no changes to the previously disclosed dividend forecast.

## 3. Estimate of Consolidated Operating Results for Fiscal Year 2019 (January 1 to December 31, 2019)

For the estimate of consolidated operating results for fiscal year 2019, double-digit growth on consolidated operating results for fiscal year 2018 is estimated for fiscal year 2019 consolidated revenues, excluding the securities business whose results are heavily impacted by stock market conditions.

For details, see page 8, 1. Qualitative Information, Financial Statements, etc. (3) Qualitative Information about Consolidated Business Forecasts.

Note: There are no changes to the previously disclosed consolidated forecasts for the year ending December 31, 2019.

### 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 18, 2. Consolidated Financial Statements (Summary) and Main Notes (6) Notes to the summary of consolidated financial statements for the six months ended June 30, 2019 (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 June 30, 2019)
  - 1,434,573,900 shares (As of December 31, 2018)
2. Number of treasury stocks at the end of the period
  - 80,598,838 shares (As of June 30, 2019)
  - 82,555,538 shares (As of December 31, 2018)
3. Average number of shares during the period (cumulative from the beginning of the year)
  - 1,352,836,949 shares (January 1 – June 30, 2019)
  - 1,348,055,684 shares (January 1 – June 30, 2018)

This financial report is not subject to an audit firm's quarterly review.

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

Consolidated forecasts for the year ending December 31, 2019 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 the “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 the Rakuten Group 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 Six Months Ended June 30, 2019 (Non-GAAP basis)**

The world economy during the six months ended June 30, 2019 has been recovering gradually, although attention must still be paid to trends in trade issues and the impact of fluctuations in financial and capital markets. The Japanese economy also saw an ongoing gradual recovery due to signs of a pickup in personal consumption amid continuing improvement in the wage and employment environment, in addition to increased capital investment by companies and rising consumer prices.

The “Investments for the Future Strategy 2018,” adopted by cabinet decision in June 2018, calls on Japan to incorporate cutting-edge technologies such as IoT, robotics, artificial intelligence (AI) and Big Data throughout all industries and society as a whole in order to realize a new Society 5.0 that achieves both economic development and solutions to social problems. In addition, specific targets for promoting data distribution, realizing a cashless society, advancing innovation such as practical applications for FinTech, promoting Mobility as a Service (MaaS), and reforming logistics were adopted by a cabinet decision in June 2019 as a concrete roadmap for the realization of Society 5.0.

Under such an environment, the Rakuten Group is at the forefront of corporate efforts to combine knowledge from these fields while proceeding with the development of businesses that bring together membership, data, and branding, with the goal of expanding the Rakuten Ecosystem globally.

In domestic e-commerce services, the mainstay of Internet Services, the Rakuten Group is aiming for further growth in gross merchandise sales and revenues by working on various initiatives, including sales promotion activities to cultivate loyal customers and win new customers, promotion of cross-use of services, programs aimed at improving customer satisfaction, strategies to enhance services for smart devices, further opening up the Rakuten Ecosystem, and reinforcement of its logistics network. As for overseas Internet services, the Rakuten Group is integrating various services into the Rakuten brand, and conducting proactive sales promotion activities to raise the profile of the brand and expand business overseas. In the investment business, the Rakuten Group recorded ¥110,433 million in valuation gains on securities during the first quarter ended March 31, 2019, due to an IPO conducted by the U.S.-based Lyft, Inc. (hereinafter “Lyft”), a Rakuten Group investee, on the U.S. Nasdaq market. The Rakuten Group also reorganized its investment in Lyft, reclassifying Lyft an affiliated company accounted for by the equity method during the three months ended June 30, 2019, in an aim of facilitating mutual collaboration. As a result, the Rakuten Group recorded ¥10,943 million in valuation losses on securities during the second quarter ended June 30, 2019. In the FinTech segment, growth in shopping transaction volume and revolving balances due to expansion of Rakuten Card's membership base contributed to an increase in revenue and income. In addition, in banking services, revenue and income continued to expand due to an increase in interest income from growing loan balances and improvements in administrative efficiency, despite the backdrop of a negative interest rate policy. In insurance services, revenue increased mainly due to making Rakuten General Insurance Co., Ltd. a wholly owned subsidiary during the six months ended June 30, 2018. Meanwhile, in general insurance services, income declined during the six months ended June 30, 2019, as

a result of business restructuring and purchases of additional reinsurance to prepare for natural disasters. In securities services, revenue and income decreased due to reduced commissions under the backdrop of a sluggish domestic stock market. In the Mobile segment, the Rakuten Group received approval from the Minister for Internal Affairs and Communications for plans to set up specified base stations to promote the spread of fourth- and fifth-generation mobile communications in April 2018 and 2019, respectively, and is conducting a series of verification tests to launch the fifth-generation services, while collaborating with various vendors to build a communications network. In addition, Rakuten Viber, which provides messaging and VoIP services, saw a significant increase in revenue.

Through these efforts, the Rakuten Group achieved revenue of ¥586,644 million, up 14.5% year-on-year, for the six months ended June 30, 2019. Non-GAAP operating income was ¥121,128 million, up 34.2% year-on-year.

(Non-GAAP)

(Millions of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019	Amount Change YoY	% Change YoY
Revenue	512,161	586,644	74,483	14.5%
Non-GAAP Operating Income	90,236	121,128	30,892	34.2%

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

For the six months ended June 30, 2019, amortization of intangible assets of ¥4,626 million and stock-based compensation expenses of ¥4,607 million were excluded from Non-GAAP operating income.

(Millions of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019	Amount Change YoY
Non-GAAP operating income	90,236	121,128	30,892
Amortization of intangible assets (PPA)	(4,422)	(4,626)	(204)
Stock based compensation	(3,792)	(4,607)	(815)
One-off items	7,648	—	(7,648)
Operating Income	89,670	111,895	22,225

### iii) Business Results for the Six Months Ended June 30, 2019 (IFRS basis)

The Rakuten Group recorded revenue of ¥586,644 million, up 14.5% year-on-year, operating income of ¥111,895 million, up 24.8% year-on-year, and net income attributable to owners of the parent company of ¥100,249 million, up 55.4% year-on-year, for the six months ended June 30, 2019.

(IFRS)

(Millions of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019	Amount Change YoY	% Change YoY
Revenue	512,161	586,644	74,483	14.5%
Operating income	89,670	111,895	22,225	24.8%
Net income attributable to owners of the parent company	64,522	100,249	35,727	55.4%

#### iv) Segment Information

At a Meeting of the Board of Directors held on March 28, 2019, the Company resolved to change its internal reporting management structure in conjunction with the reorganization of group companies through a company split on April 1, 2019. The “Mobile” segment was added to the current reporting segments of “Internet Services” and “FinTech” to form three reporting segments starting in the three months ended March 31, 2019. The “Mobile” segment comprises business operations engaged in communication and messaging services. 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.

From the three months ended June 30, 2019, the segment structure of functional subsidiaries etc engaged in research and development has been changed, and the method of allocating shared costs in the headquarter administrative departments has been changed and applied retroactively. In accordance with this change, during the six months ended June 30, 2018, revenue in the Internet Services segment decreased by ¥3,087 million and segment profit decreased by ¥830 million, revenue in the FinTech segment decreased by ¥523 million and segment profit decreased by ¥5,307 million, and segment profit in the Mobile segment decreased by ¥537 million, compared to before the retrospective application. In addition, during the three months ended June 30, 2018, revenue in the Internet Services segment decreased by ¥1,749 million and segment profit decreased by ¥134 million, revenue in the FinTech segment decreased by ¥248 million and segment profit decreased by ¥2,736 million, and segment profit in the Mobile segment decreased by ¥256 million. This change has no impact on consolidated revenue, Non-GAAP operating income, or operating income.

#### Internet Services

In domestic e-commerce services, the mainstay of Internet Services, the Rakuten Group aimed for further growth in gross merchandise sales and revenues by working on various initiatives, including sales promotion activities to cultivate loyal customers and win new customers, promotion of cross-use of services, programs aimed at improving customer satisfaction, strategies to enhance services for smart devices, and further opening up the Rakuten Ecosystem.

The Rakuten Group worked to mitigate the medium to long-term impact of volume limits and increased shipping costs from shipping companies and to enhance the convenience of both customers and merchants who use Rakuten services by carrying out reinforcement of its logistics network. These efforts include increasing capacity of the Rakuten Group’s logistics facilities to accept products for stores on the Rakuten marketplace and expanding the last mile delivery area covered by the Rakuten Group based on the One Delivery concept of providing comprehensive logistics services.

In overseas Internet Services, the Rakuten Group is integrating various services into the Rakuten brand, and conducting proactive sales promotion activities to raise the profile of the brand and expand business overseas. In the investment business, the Rakuten Group recorded ¥110,433 million in valuation gains on securities during the first quarter ended March 31, 2019, due to an IPO conducted by the U.S.-based Lyft, Inc., a Rakuten Group investee, on the U.S. Nasdaq market. The Rakuten Group reorganized Lyft’s businesses, making Lyft an equity method associate during the three months ended June 30, 2019, with the aim of facilitating mutual collaboration. As a result, the Rakuten Group recorded ¥10,943 million in valuation losses on securities during the three months ended June 30, 2019.

As a result, revenue for the Internet Services segment rose to ¥359,156 million, a 16.1% year-on-year increase, while segment profit stood at ¥108,867 million, a 94.3% year-on-year increase.

(Millions of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019	Amount Change YoY	% Change YoY
Segment Revenue	309,469	359,156	49,687	16.1%
Segment Profit	56,020	108,867	52,847	94.3%

## FinTech

Growth in shopping transaction volume and revolving balances due to expansion of Rakuten Card's membership base contributed to an increase in revenue and income. In addition, in banking services, revenue and income continued to expand due to an increase in interest income from growing loan balances and improvements in administrative efficiency, despite the backdrop of a negative interest rate policy. In insurance services, revenue increased mainly due to making Rakuten General Insurance Co., Ltd. a wholly owned subsidiary during the six months ended June 30, 2018. Meanwhile, in general insurance services, income declined during the six months ended June 30, 2019, as a result of business restructuring and purchases of additional reinsurance to prepare for natural disasters. In securities services, revenue and income decreased due to reduced commissions under the backdrop of a sluggish domestic stock market.

As a result, the FinTech segment recorded ¥232,552 million in revenue, a 15.0% year-on-year increase, while segment profit stood at ¥34,391 million, a 10.9% year-on-year decrease.

(Millions of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019	Amount Change YoY	% Change YoY
Segment Revenue	202,163	232,552	30,389	15.0%
Segment Profit	38,613	34,391	(4,222)	(10.9)%

## Mobile

In the Mobile segment, the Rakuten Group received approval from the Minister for Internal Affairs and Communications for a plan to set up specified base stations to promote the spread of fourth- and fifth-generation mobile communications in April 2018 and 2019, respectively, and is conducting a series of verification tests to launch fifth-generation services, while collaborating with various vendors to build a communications network. In addition, Rakuten Viber, which provides messaging and VoIP services, saw a significant increase in revenue.

As a result, the Mobile segment recorded ¥52,480 million in revenue, a 23.5% year-on-year increase, while segment loss amounted to ¥18,925 million compared to a loss of ¥3,250 million in the six months ended June 30, 2018.

(Millions of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019	Amount Change YoY	% Change YoY
Segment Revenue	42,493	52,480	9,987	23.5%
Segment Profit (Loss)	(3,250)	(18,925)	(15,675)	—%

## **(2) Analysis Concerning Financial Position**

### **i) Assets, Liabilities, and Net Assets**

#### **Assets**

Total assets as of June 30, 2019 amounted to ¥8,035,876 million, an increase of ¥690,874 million from ¥7,345,002 million at the end of the previous fiscal year. The primary factors include an increase of ¥266,684 million in cash and cash equivalents, and an increase of ¥159,020 million in property, plant and equipment due to an increase in right-of-use assets following the adoption of IFRS 16 Leases.

#### **Liabilities**

Total liabilities as of June 30, 2019 amounted to ¥7,168,530 million, an increase of ¥599,735 million from ¥6,568,795 million at the end of the previous fiscal year. The primary factors include an increase of ¥338,310 million in deposits for banking business due mainly to an increase in the number of savings accounts at Rakuten Bank, Ltd., and an increase of ¥275,056 million in bonds and borrowings.

#### **Equity**

Equity as of June 30, 2019 was ¥867,346 million, an increase of ¥91,139 million from ¥776,207 million at the end of the previous fiscal year. The primary factors include an increase of ¥93,098 million in retained earnings due mainly to recording of ¥100,249 million in net income attributable to owners of the parent company during the six months ended June 30, 2019.

### **ii) Cash Flows**

Cash and cash equivalents as of June 30, 2019 was ¥1,256,926 million, an increase of ¥266,684 million from the end of the previous fiscal year. Cash flow conditions and their main factors for the six months ended June 30, 2019 are as follows.

#### **Net cash flows from operating activities**

Net cash flows from operating activities for the six months ended June 30, 2019 resulted in a cash inflow of ¥106,143 million (compared with a cash outflow of ¥49,746 million for the same period of the previous fiscal year). Main factors included a cash outflow of ¥99,816 million due to a decrease in financial liabilities for securities business, a cash outflow of ¥77,707 million due to an increase in loans for banking business, and a cash outflow of ¥59,851 million due to an increase in loans for credit card business, offset by a cash inflow of ¥338,451 million due to an increase in deposits for banking business.

#### **Net cash flows from investing activities**

Net cash flows from investing activities for the six months ended June 30, 2019 resulted in a cash outflow of ¥92,938 million (compared with a cash outflow of ¥28,585 million for the same period of the previous fiscal year). Main factors included a net cash inflow of ¥46,327 million due to purchase and sales, etc. of investment securities for insurance business (a cash inflow of ¥91,359 million due to sales and redemption of investment securities, and a cash outflow of ¥45,032 million due to purchase of investment securities), offset by a cash outflow of ¥64,160 million due to purchase of property, plant and equipment, and a cash outflow of ¥39,249 million due to purchase of intangible assets.

#### **Net cash flows from financing activities**

Net cash flows from financing activities for the six months ended June 30, 2019 resulted in a cash inflow of ¥258,196 million (compared with a cash inflow of ¥116,336 million for the same period of the previous fiscal year). Main factors included a cash outflow of ¥160,774 million due to repayment of long-term debt, offset by a cash inflow of ¥174,900 million due to long-term debt, a cash inflow of ¥115,500 million due to an increase in commercial papers, and a cash inflow of ¥85,483 million due to an increase in short-term borrowings.

### **(3) Qualitative Information about Consolidated Business Forecasts**

For the forecast of consolidated operating results for Fiscal Year 2019, 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 the areas of domestic Internet 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, such as cultivating a loyal customer base, winning new users, promoting cross-use of services and making efforts to improve customer satisfaction, along with establishing and strengthening its logistics network with a view to expanding the e-commerce platform, enhancing services for smart devices, and promoting strategies for opening up the Rakuten Ecosystem, while creating new markets through the use of technologies such as data and AI. In overseas Internet services, we aim to expand the Rakuten Ecosystem's membership base and provide new value to users.

#### **FinTech**

In credit card related services, we will continue striving to achieve further growth in shopping transaction volume by strengthening marketing initiatives aimed at expanding market share and promoting synergy. In banking services, a solid expansion of operations is expected due to a steady accumulation in loan balances. In life insurance services and general insurance services, we will aim for further growth by increasing the number of new policies and expanding our products that have a high level of affinity with Internet services. It is difficult to make a forecast for securities services due to substantial impact of stock market conditions.

#### **Mobile**

In media and communication services such as Rakuten Mobile and Rakuten Viber, we aim to increase revenue by expanding the Rakuten Ecosystem's membership base and providing new value to users. In communication services, expenses are expected to be incurred for establishing specified base stations, etc., in line with the launch of the cell phone carrier business in October 2019.

**3. Consolidated Financial Statements (Summary)**  
**(1) Consolidated Statement of Financial Position (Summary)**

(Millions of yen)

	As of December 31, 2018	As of June 30, 2019
<b>Assets</b>		
Cash and cash equivalents	990,242	1,256,926
Accounts receivable – trade	181,026	165,704
Financial assets for securities business	1,789,832	1,776,451
Loans for credit card business	1,464,030	1,523,589
Investment securities for banking business	205,641	225,472
Loans for banking business	891,925	969,633
Investment securities for insurance business	277,057	235,261
Derivative assets	27,388	27,831
Investment securities	384,788	242,824
Other financial assets	275,800	277,605
Investments in associates and joint ventures	12,788	273,038
Property, plant and equipment	91,335	250,355
Intangible assets	553,815	585,764
Deferred tax assets	50,049	50,996
Other assets	149,286	174,427
<b>Total assets</b>	<b>7,345,002</b>	<b>8,035,876</b>
<b>Liabilities</b>		
Accounts payable – trade	255,353	206,368
Deposits of banking business	2,355,114	2,693,424
Financial liabilities of securities business	1,753,216	1,653,282
Derivative liabilities	9,213	4,901
Bonds and borrowings	1,234,143	1,509,199
Other financial liabilities	444,531	586,596
Income taxes payable	13,243	12,750
Provisions	90,516	93,772
Insurance business policy reserve	334,536	324,595
Employee retirement benefit liabilities	5,164	7,728
Deferred tax liabilities	13,059	12,931
Other liabilities	60,707	62,984
<b>Total liabilities</b>	<b>6,568,795</b>	<b>7,168,530</b>
<b>Equity</b>		
Equity attributable to owners of the parent company		
Common stock	205,924	205,924
Capital surplus	218,856	221,220
Retained earnings	424,568	517,666
Treasury stock	(97,300)	(94,993)
Other components of equity	22,425	15,800
<b>Total equity attributable to owners of the parent company</b>	<b>774,473</b>	<b>865,617</b>
Non-controlling interests	1,734	1,729
<b>Total equity</b>	<b>776,207</b>	<b>867,346</b>
<b>Total liabilities and equity</b>	<b>7,345,002</b>	<b>8,035,876</b>

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

**Consolidated Statement of Income (Summary)**

**(For the six months ended June 30, 2018 and 2019)**

(Millions of yen)

	Six months ended June 30, 2018 (January 1 to June 30, 2018)	Six months ended June 30, 2019 (January 1 to June 30, 2019)
Continuing Operations		
Revenue	512,161	586,644
Operating expenses	468,636	579,669
Other income	49,584	107,315
Other expenses	3,439	2,395
Operating income	89,670	111,895
Financial income	429	2,112
Financial expenses	1,972	4,323
Share of income (loss) of investments accounted for using equity method	(2,026)	570
Income before income tax	86,101	110,254
Income tax expense	21,587	10,351
Net income	64,514	99,903
Net income attributable to:		
Owners of the parent	64,522	100,249
Non-controlling interests	(8)	(346)
Net income	64,514	99,903
(Yen)		
Earnings per share attributable to owners of the parent company		
Basic	47.86	74.10
Diluted	47.49	73.03

**Consolidated Statement of Income (Summary)**  
**(For the three months ended June 30, 2018 and 2019)**

(Millions of yen)

	Three months ended June 30, 2018 (April 1 to June 30, 2018)	Three months ended June 30, 2019 (April 1 to June 30, 2019)
Continuing Operations		
Revenue	270,290	306,350
Operating expenses	248,632	302,812
Other income	42,932	7,090
Other expenses	3,018	12,395
Operating income	61,572	(1,767)
Financial income	282	1,787
Financial expenses	1,076	1,862
Share of loss of associates and joint ventures	599	342
Income (Loss) before income tax	60,179	(2,184)
Income tax expense	13,082	2,744
Net income (loss)	47,097	(4,928)
Net income (loss) attributable to:		
Owners of the parent company	47,101	(4,732)
Non-controlling interests	(4)	(196)
Net income (loss)	47,097	(4,928)
(Yen)		
Earnings (Losses) per share attributable to owners of the parent company		
Basic	34.92	(3.50)
Diluted	34.67	(3.50)

## Consolidated Statement of Comprehensive Income (Summary)

(For the six months ended June 30, 2018 and 2019)

(Millions of yen)

	Six months ended June 30, 2018 (January 1 to June 30, 2018)	Six months ended June 30, 2019 (January 1 to June 30, 2019)
Net income	64,514	99,903
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Gains (losses) on equity instruments measured at fair value through other comprehensive income	227	14,739
Income tax effect of gains and losses on equity instruments measured at fair value through other comprehensive income	(194)	(3,525)
Remeasurement of insurance policy reserves based on current market interest rates	(808)	(5,493)
Income tax effect of remeasurement of insurance policy reserves based on current market interest rates	226	1,538
Remeasurement of defined benefit plans	—	(7)
Income tax effect of remeasurement of defined benefit plans	—	2
Share of other comprehensive income of associates and joint ventures	(10)	2
Total items that will not be reclassified to profit or loss	(559)	7,256
Items that will be reclassified to profit or loss		
Foreign currency translation adjustments	(12,899)	(13,558)
Foreign currency translation adjustments reclassified from other comprehensive income to profit or loss	—	(291)
Gains (losses) on debt instruments measured at fair value through other comprehensive income	(246)	2,531
Allowances for doubtful debts on debt instruments measured at fair value through other comprehensive income	74	(59)
Gains (losses) on debt instruments measured at fair value through other comprehensive income reclassified from other comprehensive income to profit or loss	(111)	(611)
Income tax effect of gains or losses on debt instruments measured at fair value through other comprehensive income	21	(532)
Gains (losses) on cash flow hedges recognized in other comprehensive income	407	(762)
Income tax effect of gains or losses on cash flow hedges recognized in other comprehensive income	24	226
Gains (losses) on cash flow hedges reclassified from other comprehensive income to profit or loss	159	198
Income tax effect of gains or losses on cash flow hedges reclassified from other comprehensive income to profit or loss	(70)	(66)
Share of other comprehensive income of associates and joint ventures	64	(152)
Total items that will be reclassified to profit or loss	(12,577)	(13,076)
Other comprehensive income, net of tax	(13,136)	(5,820)
Comprehensive income	51,378	94,083
Comprehensive income attributable to:		
Owners of the parent company	51,386	94,427
Non-controlling interests	(8)	(344)
Comprehensive income	51,378	94,083

## Consolidated Statement of Comprehensive Income (Summary)

(For the three months ended June 30, 2018 and 2019)

(Millions of yen)

	Three months ended June 30, 2018 (April 1 to June 30, 2018)	Three months ended June 30, 2019 (April 1 to June 30, 2019)
Net income (loss)	47,097	(4,928)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Gains (losses) on equity instruments measured at fair value through other comprehensive income	2,134	17,491
Income tax effect of gains and losses on equity instruments measured at fair value through other comprehensive income	(194)	(1,911)
Remeasurement of insurance policy reserves based on current market interest rates	(64)	(2,430)
Income tax effect of remeasurement of insurance policy reserves based on current market interest rates	18	681
Remeasurement of defined benefit plans	—	—
Income tax effect of remeasurement of defined benefit plans	—	—
Share of other comprehensive income of associates and joint ventures	(9)	2
Total items that will not be reclassified to profit or loss	1,885	13,833
Items that will be reclassified to profit or loss		
Foreign currency translation adjustments	20,600	(20,420)
Foreign currency translation adjustments reclassified from other comprehensive income to profit or loss	—	(291)
Gains (losses) on debt instruments measured at fair value through other comprehensive income	(449)	557
Allowances for doubtful debts on debt instruments measured at fair value through other comprehensive income	65	(22)
Gains (losses) on debt instruments measured at fair value through other comprehensive income reclassified from other comprehensive income to profit or loss	(109)	(429)
Income tax effect of gains or losses on debt instruments measured at fair value through other comprehensive income	82	(39)
Gains (losses) on cash flow hedges recognized in other comprehensive income	260	(262)
Income tax effect of gains or losses on cash flow hedges recognized in other comprehensive income	15	84
Gains (losses) on cash flow hedges reclassified from other comprehensive income to profit or loss	46	93
Income tax effect of gains or losses on cash flow hedges reclassified from other comprehensive income to profit or loss	(37)	(34)
Share of other comprehensive income of associates and joint ventures	975	(86)
Total items that will be reclassified to profit or loss	21,448	(20,849)
Other comprehensive income, net of tax	23,333	(7,016)
Comprehensive income	70,430	(11,944)
Comprehensive income attributable to:		
Owners of the parent company	70,434	(11,746)
Non-controlling interests	(4)	(198)
Comprehensive income	70,430	(11,944)



(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	
As of January 1, 2019	205,924	218,856	424,568	(97,300)	1,462	25,781	
Cumulative impact from change in accounting policy	—	—	(2,087)	—	—	—	
Current period balance reflecting change in accounting policy	205,924	218,856	422,481	(97,300)	1,462	25,781	
Comprehensive income							
Net income	—	—	100,249	—	—	—	
Other comprehensive income net of tax	—	—	—	—	(13,999)	12,541	
Total comprehensive income	—	—	100,249	—	(13,999)	12,541	
Transactions with owners							
Contributions by and distributions to owners							
Cash dividends paid	—	—	(6,084)	—	—	—	
Reclassification from other components of equity to retained earnings	—	—	803	—	—	(803)	
Disposal of treasury stock	—	(2,238)	—	2,307	—	—	
Issuance of stock acquisition rights	—	4,671	—	—	—	—	
Loss of stock acquisition rights	—	(69)	—	—	—	—	
Others	—	—	217	—	—	—	
Total contributions by and distributions to owners	—	2,364	(5,064)	2,307	—	(803)	
Changes in ownership interests in subsidiaries							
Issuance of new shares	—	—	—	—	—	—	
Acquisition and disposal of non-controlling interests	—	—	—	—	—	—	
Others	—	—	—	—	—	—	
Total changes in ownership interests in subsidiaries	—	—	—	—	—	—	
Total transactions with owners	—	2,364	(5,064)	2,307	—	(803)	
As of June 30, 2019	205,924	221,220	517,666	(94,993)	(12,537)	37,519	
	Other components of equity						
	Cash flow hedges	Remeasurement of insurance business policy reserves based on current market interest rates	Remeasurement of retirement benefit plans	Total other components of equity	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
As of January 1, 2019	(511)	(4,260)	(47)	22,425	774,473	1,734	776,207
Cumulative impact from change in accounting policy	—	—	—	—	(2,087)	—	(2,087)
Current period balance reflecting change in accounting policy	(511)	(4,260)	(47)	22,425	772,386	1,734	774,120
Comprehensive income							
Net income	—	—	—	—	100,249	(346)	99,903
Other comprehensive income net of tax	(404)	(3,955)	(5)	(5,822)	(5,822)	2	(5,820)
Total comprehensive income	(404)	(3,955)	(5)	(5,822)	94,427	(344)	94,083
Transactions with owners							
Contributions by and distributions to owners							
Cash dividends paid	—	—	—	—	(6,084)	—	(6,084)
Reclassification from other components of equity to retained earnings	—	—	—	(803)	—	—	—
Disposal of treasury stock	—	—	—	—	69	—	69
Issuance of stock acquisition rights	—	—	—	—	4,671	—	4,671
Loss of stock acquisition rights	—	—	—	—	(69)	—	(69)
Others	—	—	—	—	217	—	217
Total contributions by and distributions to owners	—	—	—	(803)	(1,196)	—	(1,196)
Changes in ownership interests in subsidiaries							
Issuance of new shares	—	—	—	—	—	339	339
Acquisition and disposal of non-controlling interests	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total changes in ownership interests in subsidiaries	—	—	—	—	—	339	339
Total transactions with owners	—	—	—	(803)	(1,196)	339	(857)
As of June 30, 2019	(915)	(8,215)	(52)	15,800	865,617	1,729	867,346

#### (4) Consolidated Statement of Cash Flows (Summary)

(Millions of Yen)

	Six months ended June 30, 2018 (January 1 to June 30, 2018)	Six months ended June 30, 2019 (January 1 to June 30, 2019)
Cash flows from operating activities		
Income before income tax	86,101	110,254
Depreciation and amortization	33,776	48,964
Other loss (Income)	(42,416)	(91,449)
Decrease (Increase) in operating receivables	14,695	13,895
Decrease (Increase) in loans for credit card business	(44,392)	(59,851)
Increase (Decrease) in deposits for banking business	96,001	338,451
Net decrease (increase) in call loans for banking business	(5,000)	(15,000)
Decrease (Increase) in loans for banking business	(79,080)	(77,707)
Increase (Decrease) in operating payables	(11,435)	(49,804)
Decrease (Increase) in financial assets for securities business	104,199	13,259
Increase (Decrease) in financial liabilities for securities business	(138,005)	(99,816)
Others	(52,828)	(9,594)
Income tax paid	(11,362)	(15,459)
Net cash flows from (used in) operating activities	(49,746)	106,143
Cash flows from investing activities		
Increase in time deposits	(7,029)	(7,601)
Decrease in time deposits	6,096	7,621
Purchase of property, plant and equipment	(10,348)	(64,160)
Purchase of intangible assets	(26,736)	(39,249)
Acquisition of subsidiaries	(10,596)	(5,342)
Proceeds from acquisition of subsidiaries	10,355	—
Acquisition of investments in associates and joint ventures	(876)	(8,699)
Purchase of investment securities for banking business	(164,319)	(148,301)
Proceeds from sales and redemption of investment securities for banking business	163,918	128,766
Purchase of investment securities for insurance business	(13,111)	(45,032)
Proceeds from sales and redemption of investment securities for insurance business	22,444	91,359
Purchase of investment securities	(6,273)	(10,154)
Proceeds from sales and redemption of investment securities	9,077	11,856
Other payments	(4,770)	(10,729)
Other proceeds	3,583	6,727
Net cash flows from (used in) investing activities	(28,585)	(92,938)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	48,798	85,483
Increase (Decrease) in commercial papers	29,000	115,500
Proceeds from long-term debt	179,976	174,900
Repayment of long-term debt	(133,668)	(160,774)
Proceeds from issuance of bonds	—	79,480
Redemption of bonds	(150)	(20,000)
Repayment of leases	(385)	(7,128)
Cash dividends paid	(6,053)	(6,113)
Others	(1,182)	(3,152)
Net cash flows from financing activities	116,336	258,196
Effect of change in exchange rates on cash and cash equivalents	(1,288)	(4,717)
Net increase (decrease) in cash and cash equivalents	36,717	266,684
Cash and cash equivalents at the beginning of the period	700,881	990,242
Cash and cash equivalents at the end of the period	737,598	1,256,926

**(5) Assumptions for going concern for the six months ended June 30, 2019**

No items to report

**(6) Notes to the summary of consolidated financial statements for the six months ended June 30, 2019**

**(Basis of presentation)**

The Rakuten Group's summary of consolidated financial statements for the six months ended June 30, 2019 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, 2018.

**(Significant changes in the scope of consolidation and the scope of equity method)**

Six months ended June 30, 2019 (January 1 to June 30, 2019)

Apart from the following, there were no significant changes neither in the scope of consolidation nor in the scope of equity method with respect to the summary of consolidated financial statements for the six months ended June 30, 2019, as compared with the consolidated financial statements for the fiscal year ended December 31, 2018.

The Rakuten Group's investment in Lyft, Inc. (hereafter Lyft) stock, which was originally accounted for as a financial instrument measured at fair value through profit or loss, will as of the accounting period for the six months ended June 30, 2019, be accounted for through the adoption of the equity method. This is due to, amongst other considerations, the Rakuten Group's stockholding and voting rights in Lyft which, while below 20%, because of factors such as its stockholding and active involvement on the board of directors through its appointed director (also a director of the Rakuten Group) etc., enable the Rakuten Group to exert significant influence on Lyft. Further, due to factors such as agreements with Lyft, it is not practically feasible to align reporting periods, and consequently the equity method will be applied in the Rakuten Group's consolidated financial statements with a three-month difference in reporting periods. For this reason, investment losses due to the equity method have not been recorded for the six months ended June 30, 2019. Moreover, necessary adjustments will be made in cases where the company announces material transactions or for major events that fall within the stated reporting period difference.

Furthermore, the equity method is applied to the investment in AltioStar Networks, Inc. (hereafter "AltioStar") which was acquired in the three months ended June 30, 2019. The Rakuten Group's stockholding and voting rights exceed 50%, but the board of directors, a key decision-making body whose composition is agreed on between stockholders, is such that the Rakuten Group does not have control and therefore a determination has been made that AltioStar is not a subsidiary. The Rakuten Group determined that it is possible to exert significant influences by holding shares, actively involving in the board of directors through appointing directors, and by material transactions with the company.

### (Significant accounting policies)

Significant accounting policies adopted by the Rakuten Group in this summary of consolidated financial statements for the six months ended June 30, 2019 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 six months ended June 30, 2019 are calculated based upon an estimated annual effective tax rate.

### Adoption of IFRS 16

The Rakuten Group has adopted IFRS 16 from the three months ended March 31, 2019.

IFRS		Description of the revision
IFRS 16	Leases	Revisions related to accounting for leases

### Lease transactions (lessee)

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. Right-of-use assets are measured initially at an amount calculated by adjusting the initially measured amount of lease liabilities by initial direct cost and lease prepayments, etc. which is then added by the cost of carry out obligations to restore the property to its original state as required under lease agreements. Right-of-use assets are subject to depreciation on a systematic basis over the lease term.

The discount rate used in measuring the present value of the lease payments that are not paid at that date is the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

Lease payments are allocated into interest cost and the portion of the balance of lease liability to be repaid, to ensure that the interest rate remains constant for the balance of lease liability. Financial cost shall be presented separately from the depreciation of the right-of-use assets in the consolidated statement of income.

Whether an agreement constitutes a lease agreement, or elements of a lease shall be determined by the substance of the agreement, regardless of whether it is legally presented in the form of a lease or not.

The Rakuten Group has adopted IFRS 16 on a retroactive basis, in accordance with the transitional arrangement, whereby the cumulative effect of adoption is recognized as an adjustment to the opening balance of retained earnings for the fiscal year under review.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the statement of financial position at the date of initial application is 0.6%.

The difference between the total amount of minimum lease payments based on the non-cancellable operating lease agreements, as disclosed on December 31, 2018 by adopting IAS 17, and the lease liabilities recognized at the time of adopting IFRS 16 amounted to ¥51,542 million, which largely reflects the impact of the review of lease terms on adopting IFRS 16.

Accordingly, compared with the outcome calculated based on the previously adopted accounting standards, right-of-use assets included mainly in property, plant and equipment increased by ¥86,833 million as at the beginning of the year, and lease liabilities included in other financial liabilities increased by ¥91,420 million, while retained earnings decreased by ¥2,087 million.

### (Significant accounting estimates and judgments)

Preparation of the summary of consolidated financial statements under IFRS for the three months ended March 31, 2019 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. Resulting accounting estimates by their nature may 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 the consolidated financial statements for the three months ended June 30, 2019 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 had been organized into two reportable segments: “Internet Services” and “FinTech”. At the Meeting of the Board of Directors held on March 28, 2019, the Company resolved to change its internal reporting management structure in conjunction with the reorganization of group companies through a company split on April 1, 2019. The “Mobile” segment was added to the current reporting segments of “Internet Services” and “FinTech” to form three reporting segments starting in the first quarter ended March 31, 2019.

Segment information for the three months ended March 31, 2018 was prepared based on the classification after the aforementioned change.

For the new reportable segments, separate financial information on the operational units of the Group is available, and such financial information is subject to periodic review for the Board of Directors to decide on the distribution of management resources and evaluate 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 sales of advertising, etc. on these sites, and 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, general insurance and electronic money.

The “Mobile” segment comprises business operations engaged in communication and messaging services.

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

Operating segment information is reported in accordance with IFRS. 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 are Non-GAAP operating income; operating income in accordance with IFRS adjusted for unusual items and other adjustment items 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 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 the Rakuten Group 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.

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

### **3. Changes in Measurement Methods of Segment Revenue and Segment Profit (Loss) by Operating Segments**

From the second quarter ended June 30, 2019, the segment structure of functional subsidiaries etc engaged in research and development has been changed, and the method of allocating shared costs in the headquarters administration departments has been changed and applied retroactively. With this change, during the six months ended June 30, 2018, Internet Services segment revenue decreased by ¥3,087 million compared to before retroactive application, and segment profit decreased by ¥830 million, FinTech segment revenue decreased by ¥523 million and segment profit decreased by ¥5,307 million, and Mobile segment profit decreased by ¥537 million. In addition, in the three months ended June 30, 2018, Internet Services segment revenue decreased ¥1,749 million and segment profit decreased by ¥134 million, FinTech segment revenue decreased by ¥248 million and segment profit decreased by ¥2,736 million, and Mobile segment profit decreased by ¥256 million. There is no impact on consolidated revenue, Non-GAAP operating income, and operating income.

**Six months ended June 30, 2018 (January 1 to June 30, 2018)**

(Millions of Yen)

	Internet Services	FinTech	Mobile	Total
Segment Revenue	309,469	202,163	42,493	554,125
Segment Profit (Loss)	56,020	38,613	(3,250)	91,383

**Six months ended June 30, 2019 (January 1 to June 30, 2019)**

(Millions of Yen)

	Internet Services	FinTech	Mobile	Total
Segment Revenue	359,156	232,552	52,480	644,188
Segment Profit (Loss)	108,867	34,391	(18,925)	124,333

**Three months ended June 30, 2018 (April 1 to June 30, 2018)**

(Millions of Yen)

	Internet Services	FinTech	Mobile	Total
Segment Revenue	161,491	108,878	21,902	292,271
Segment Profit (Loss)	41,253	20,791	(2,331)	59,713

**Three months ended June 30, 2019 (April 1 to June 30, 2019)**

(Millions of Yen)

	Internet Services	FinTech	Mobile	Total
Segment Revenue	190,060	118,612	27,118	335,790
Segment Profit (Loss)	(1,824)	17,107	(12,241)	3,042

**Reconciliation from Segment Revenue to Consolidated Revenue**

(Millions of Yen)

	Six months ended June 30, 2018 (January 1 to June 30, 2018)	Six months ended June 30, 2019 (January 1 to June 30, 2019)
Segment Revenue	554,125	644,188
Intercompany transactions, etc.	(41,964)	(57,544)
Consolidated Revenue	512,161	586,644

(Millions of Yen)

	Three months ended June 30, 2018 (April 1 to June 30, 2018)	Three months ended June 30, 2019 (April 1 to June 30, 2019)
Segment Revenue	292,271	335,790
Intercompany transactions, etc.	(21,981)	(29,440)
Consolidated Revenue	270,290	306,350

**Reconciliation from Segment Profit to Income (Loss) Before Income Tax**

(Millions of Yen)

	Six months ended June 30, 2018 (January 1 to June 30, 2018)	Six months ended June 30, 2019 (January 1 to June 30, 2019)
Segment Profit	91,383	124,333
Intercompany transactions, etc.	(1,147)	(3,205)
Non-GAAP Operating Income	90,236	121,128
Amortization of Intangible Assets (PPA)	(4,422)	(4,626)
Stock Based Compensation	(3,792)	(4,607)
One-off Items	7,648	—
Operating income	89,670	111,895
Financial income and expenses	(1,543)	(2,211)
Share of income (loss) of associates and joint ventures	(2,026)	570
Income before income tax	86,101	110,254

(Millions of Yen)

	Three months ended June 30, 2018 (April 1 to June 30, 2018)	Three months ended June 30, 2019 (April 1 to June 30, 2019)
Segment Profit	59,713	3,042
Intercompany transactions, etc.	(1,320)	109
Non-GAAP Operating Income	58,393	3,151
Amortization of Intangible Assets (PPA)	(2,668)	(2,270)
Stock Based Compensation	(1,801)	(2,648)
One-off Items	7,648	—
Operating income	61,572	(1,767)
Financial income and expenses	(794)	(75)
Share of income (loss) of associates and joint ventures	(599)	(342)
Income (Loss) before income tax	60,179	(2,184)

## Breakdown of Operating Expenses

(Millions of Yen)

	Six months ended June 30, 2018 (January 1 to June 30, 2018)	Six months ended June 30, 2019 (January 1 to June 30, 2019)
Advertising and promotion expenditures	87,333	108,981
Employee benefits expenses	84,993	100,215
Depreciation and amortization	33,776	48,963
Communication and maintenance expenses	12,886	14,709
Consignment and subcontract expenses	25,857	35,555
Allowance for doubtful accounts charged to expenses	17,508	19,789
Cost of sales of merchandise and service revenue	122,744	155,145
Interest expense for finance business	3,355	3,891
Commission expense for finance business	5,248	5,965
Insurance claims and other payments, and provision of policy reserves and others for insurance business	13,048	14,863
Others	61,888	71,593
Total	468,636	579,669

(Millions of Yen)

	Three months ended June 30, 2018 (April 1 to June 30, 2018)	Three months ended June 30, 2019 (April 1 to June 30, 2019)
Advertising and promotion expenditures	46,251	56,785
Employee benefits expenses	43,850	51,269
Depreciation and amortization	19,233	25,226
Communication and maintenance expenses	6,692	7,700
Consignment and subcontract expenses	13,667	19,164
Allowance for doubtful accounts charged to expenses	8,854	10,057
Cost of sales of merchandise and service revenue	63,388	81,966
Interest expense for finance business	1,815	2,120
Commission expense for finance business	2,688	3,071
Insurance claims and other payments, and provision of policy reserves and others for insurance business	9,832	7,511
Others	32,362	37,943
Total	248,632	302,812

(Other Income)

(Millions of Yen)

	Six months ended June 30, 2018 (January 1 to June 30, 2018)	Six months ended June 30, 2019 (January 1 to June 30, 2019)
Foreign exchange gains	1,618	5,686
Valuation gains on securities (note)	33,749	99,490
Others	14,217	2,139
Total	49,584	107,315

Note: During the six months ended June 30, 2019, the Rakuten Group recorded ¥87,446 million in valuation gains on securities related to investments in the ride-sharing business, while recording ¥7,823 million in valuation gains on securities related to investments in the healthcare business.

(Millions of Yen)

	Three months ended June 30, 2018 (April 1 to June 30, 2018)	Three months ended June 30, 2019 (April 1 to June 30, 2019)
Foreign exchange gains	1,133	6,063
Valuation gains on securities	30,164	—
Others	11,635	1,027
Total	42,932	7,090

(Other Expenses)

(Millions of Yen)

	Six months ended June 30, 2018 (April 1 to June 30, 2018)	Six months ended June 30, 2019 (April 1 to June 30, 2019)
Loss on disposal of property, plant and equipment and intangible assets	208	667
Others	3,231	1,728
Total	3,439	2,395

(Millions of Yen)

	Three months ended June 30, 2018 (April 1 to June 30, 2018)	Three months ended June 30, 2019 (April 1 to June 30, 2019)
Loss on valuation of securities (note)	—	10,943
Loss on disposal of property, plant and equipment and intangible assets	135	431
Others	2,883	1,021
Total	3,018	12,395

Note: During the three months June 30, 2019, the Rakuten Group recorded ¥20,212 million in valuation losses on securities related to investments in the ride-sharing business, while recording ¥7,823 million in valuation gains on securities related to investments in the healthcare business.

**Notes on significant subsequent events**

No items to report