Rakuten

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 Fiscal Year ended December 31, 2019

Rakuten, Inc.
February 13, 2019

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	

Scheduled date of Annual General Shareholders Meeting: March 27, 2020
Scheduled date of submission of Securities Report: March 27, 2020
Scheduled start date of dividend payment: March 13, 2020
Supplementary materials for financial results: Yes
Financial results information meeting held: Yes (For institutional investors and analysts)

1. Consolidated Results for the Fiscal Year ended December 31, 2019 (January 1 – December 31, 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	%
Fiscal year ended December 31, 2019	1,263,932	14.7	72,745	(57.3)	(44,558)	—	(33,068)	—
Fiscal year ended December 31, 2018	1,101,480	16.6	170,425	14.1	165,423	19.8	141,889	28.4

	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
Fiscal year ended December 31, 2019	(31,888)	—	(42,818)	—	(23.55)	(23.55)
Fiscal year ended December 31, 2018	142,282	28.7	124,452	23.2	105.43	104.38

	ROE (Return on equity attributable to owners of the parent company)	ROA (Ratio of income before income tax to total assets)	OI margin (Ratio of operating income to revenue)
	%	%	%
Fiscal year ended December 31, 2019	(4.2)	(0.5)	5.8
Fiscal year ended December 31, 2018	19.5	2.4	15.5

(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	Total equity attributable to owners of the parent company per Share
	Millions of yen	Millions of yen	Millions of yen	%	Yen
As of December 31, 2019	9,165,697	737,200	735,672	8.0	542.43
As of December 31, 2018	7,345,002	776,207	774,473	10.5	572.83

(3) Consolidated Cash Flows

	Net Cash Flows from Operating Activities	Net Cash Flows from Investing Activities	Net Cash Flows from Financing Activities	Cash and Cash Equivalents, End of Year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal year ended December 31, 2019	318,320	(286,290)	458,340	1,478,557
Fiscal year ended December 31, 2018	145,615	(67,569)	208,418	990,242

2. Dividend Distribution

	Dividend per Share					Total Dividend (Year)	Dividend Ratio (Consolidated)	Ratio of Dividend to total equity attributable to owners of the parent company (Consolidated)
	1Q	2Q	3Q	4Q	Year			
	Yen	Yen	Yen	Yen	Yen	Millions of Yen	%	%
FY2018	—	0.00	—	4.50	4.50	6,084	4.3	0.8
FY2019	—	0.00	—	4.50	4.50	6,103	—	0.8
FY2020 (Forecast)	—	—	—	—	—		—	

Note: Dividend per share for the fiscal year ending December 31, 2020 has not been decided yet.

3. Estimate of Consolidated Operating Results for Fiscal Year 2020 (January 1 to December 31, 2020)

For the estimate of consolidated operating results for fiscal year 2020, double-digit growth on consolidated operating results for fiscal year 2019 is estimated for fiscal year 2020 consolidated revenues, excluding the securities business whose results are heavily impacted by stock market conditions.

For details, see page 11, 1. Overview of Business Results, etc. (4) Future Outlook.

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 21, 2. Consolidated Financial Statements (6) Notes to the summary of consolidated financial statements (Changes in 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 December 31, 2019)
   1,434,573,900 shares (As of December 31, 2018)
2. Number of treasury stocks at the end of the period
   78,318,938 shares (As of December 31, 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)
   1,354,166,827 shares (January 1 – December 31, 2019)
   1,349,560,175 shares (January 1 – December 31, 2018)

This financial report is not subject to audit.

Explanation about the appropriate use of earnings forecasts, and other special matters
Consolidated earnings forecasts for the year ending December 31, 2020 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. Overview of Business Results, etc.

(1) Overview of Business Results for the Fiscal Year Ended December 31, 2019

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. 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 Fiscal Year Ended December 31, 2019 (Non-GAAP basis)

The world economy during the fiscal year ended December 31, 2019 has been recovering gradually overall, although attention must still be paid to the outlook, including trends in trade issues, the situation affecting the Middle East, and the impact of fluctuations in financial and capital markets. The Japanese economy also enjoyed a gradual recovery due to increased capital investment by companies and personal consumption in the midst of continuing improvement in the wage and employment environment.

According to a White Paper on Information and Communications in Japan (Note) published by the Ministry of Internal Affairs and Communications, the development and spread of the Internet and other information and communications technology (ICT) has brought about a new economy and society called the “Digital Economy”, and the government of Japan foresees “Society 5.0”, a concept of society positioned as the next stage of evolution for the current information society, to be realized with revolutionary technology such as IoT and Artificial Intelligence (AI).

Under such an environment, the Rakuten Group is developing businesses that bring together membership, data, and branding, along with the development and operation of services that proactively leverage AI. In communications services, preparations are underway including base stations set up for the launch of the fourth-generation mobile communication system (4G) services in April 2020, as well as verification tests for the launch of the fifth-generation mobile communication system (5G) in June 2020.

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, further opening up the Rakuten Ecosystem, and reinforcing the logistics network. As for overseas Internet services, the Rakuten Group integrated various services into the Rakuten brand, and conducted proactive sales promotion activities to raise the profile of the brand and expanded business overseas. In the investment business, the Rakuten Group recorded ¥75,120 million in valuation gains on share investments related to the ride-sharing business, etc. during the fiscal year ended December 31, 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 securities services, revenue and income decreased due to reduced commissions under the backdrop of a sluggish domestic stock market.

In the Mobile segment, preparations are underway such as radio stations set up to launch services as a mobile phone carrier in April 2020, providing the world’s first end-to-end fully virtualized cloud-native network. The Free Supporter Program was launched in October 2019, and is open to 5,000 subscribers, offering voice and data communications free of charge. As a result, the Rakuten Group incurred depreciation of property, plant and equipment and line usage fees in other companies’ roaming areas from the fourth quarter of the current fiscal year. In the Free Supporter Program, the Rakuten Group allowed up to 20,000 additional subscribers in January 2020, and is working to improve the quality and stability of its network. In addition, Rakuten Mobile, which provides Mobile Virtual Network Operator (MVNO) services, and Rakuten Viber, which provides messaging and VoIP services, substantially increased revenue due to growth in membership base.

As a result, the Rakuten Group achieved revenue of ¥1,263,932 million, up 14.7% year-on-year, for the fiscal year ended December 31, 2019. Non-GAAP operating income was ¥95,129 million, down 41.0% year-on-year.

Note: "2019 White Paper on Information and Communications in Japan" by the Ministry of Internal Affairs and Communications

(Non-GAAP)

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019	Amount Change YoY	% Change YoY
Revenue	1,101,480	1,263,932	162,452	14.7%
Non-GAAP Operating Income	161,130	95,129	(66,001)	(41.0)%

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

For the fiscal year ended December 31, 2019, amortization of intangible assets of ¥8,764 million and share-based compensation expenses of ¥10,137 million were excluded from Non-GAAP operating income. In the United States, one-off items including an impairment loss on property, plant and equipment, etc., of ¥3,483 million were recorded. In addition, one-off items of ¥28,110 million were recorded for the previous fiscal year mainly due to the transfer of all shares in O-net, Inc.

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019	Amount Change YoY
Non-GAAP operating income	161,130	95,129	(66,001)
Amortization of intangible assets (PPA)	(10,982)	(8,764)	2,218
Stock based compensation	(7,833)	(10,137)	(2,304)
One-off items	28,110	(3,483)	(31,593)
Operating Income	170,425	72,745	(97,680)

iii) Business Results for the Fiscal Year Ended December 31, 2019 (IFRS basis)

For the fiscal year ended December 31, 2019, the Rakuten Group recorded revenue of ¥1,263,932 million, up 14.7% year-on-year, operating income of ¥72,745 million, down 57.3% year-on-year, and net loss attributable to owners of the Company of ¥31,888 million, compared to a net income of ¥142,282 million in the previous fiscal year.

(IFRS)

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019	Amount Change YoY	% Change YoY
Revenue	1,101,480	1,263,932	162,452	14.7%
Operating income	170,425	72,745	(97,680)	(57.3)%
Net income attributable to owners of the Company	142,282	(31,888)	(174,170)	－%

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 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 fiscal year ended December 31, 2018, for Internet Services, segment revenue decreased by ¥7,045 million compared to before the retroactive application, and segment profit decreased by ¥2,121 million; for FinTech, segment revenue decreased by ¥1,114 million and segment profit decreased by ¥10,515 million; and for Mobile, segment profit decreased by ¥1,004 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 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, 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 integrated various services into the Rakuten brand, and conducted proactive sales promotion activities to raise the profile of the brand and expanded business overseas.

In the investment business, the Rakuten Group recorded ¥75,120 million in valuation gains on share investments related to the ride-sharing business, etc.

As a result, revenue for the Internet Service segment rose to ¥792,512 million, a 17.1% year-on-year increase, while segment profit stood at ¥90,738 million, a 15.8% year-on-year decrease.

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019	Amount Change YoY	% Change YoY
Segment Revenue	676,677	792,512	115,835	17.1%
Segment Profit	107,707	90,738	(16,969)	(15.8)%

FinTech

In Rakuten Card, 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, a gain on sales of securities was recorded from managing financial instruments, and a rebound from large payments of insurance claims related to disasters including the heavy rains in western Japan in the fiscal year ended December 31, 2018 contributed to increased revenue and income in the fiscal year ended December 31, 2019.

In securities services, revenue and income declined due to reduced commissions under the backdrop of a sluggish domestic stock market.

As a result, the FinTech segment recorded ¥486,372 million in revenue, a 14.6% year-on-year increase, while segment profit stood at ¥69,306 million, a 2.1% year-on-year increase.

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019	Amount Change YoY	% Change YoY
Segment Revenue	424,488	486,372	61,884	14.6%
Segment Profit	67,903	69,306	1,403	2.1%

Mobile

In the Mobile segment, the setup of radio stations is underway to launch services as a mobile phone carrier in April 2020, providing the world's first end-to-end fully virtualized cloud-native network. The Free Supporter Program was launched in October 2019, and is open to 5,000 subscribers, offering voice and data communications free of charge. As a result, the Rakuten Group incurred depreciation of property, plant and equipment and line usage fees in other companies' roaming areas from the fourth quarter of the current fiscal year. In the Free Supporter Program, the Rakuten Group recruited additional subscribers of up to 20,000 in January 2020, and it is working to improve the quality and stability of its network.

Furthermore, Rakuten Mobile, which provides Mobile Virtual Network Operator (MVNO) services, and Rakuten Viber, which provides messaging and VoIP services, substantially increased revenue due to growth in membership base.

As a result, revenue for the Mobile segment rose to ¥119,808 million, a 33.3% year-on-year increase, while segment loss stood at ¥60,051 million, compared to a loss of ¥13,672 million in the previous fiscal year.

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019	Amount Change YoY	% Change YoY
Segment Revenue	89,863	119,808	29,945	33.3%
Segment Profit (Loss)	(13,672)	(60,051)	(46,379)	－%

(2) Overview of Financial Position for the Fiscal Year ended December 31, 2019

Assets

Total assets as of December 31, 2019 amounted to ¥9,165,697 million, an increase of ¥1,820,695 million from ¥7,345,002 million at the end of the previous fiscal year. The primary factors were an increase of ¥488,315 million in cash and cash equivalents, an increase of ¥364,186 million in loans for credit card business, and an increase of ¥285,089 million in property, plant and equipment due to an increase in right-of-use assets following the adoption of IFRS 16 Leases and the execution of new leasing agreements.

Liabilities

Total liabilities as of December 31, 2019 amounted to ¥8,428,497 million, an increase of ¥1,859,702 million from ¥6,568,795 million at the end of the previous fiscal year. The primary factors include an increase of ¥805,634 million in deposits for banking business due mainly to an increase in the number of savings accounts at Rakuten Bank, Ltd., an increase of ¥492,953 million in bonds and borrowings, and an increase of ¥375,909 million in other financial liabilities due mainly to an increase in lease liabilities following the adoption of IFRS 16 Leases and the execution of new leasing agreements.

Equity

Equity as of December 31, 2019 was ¥737,200 million, a decrease of ¥39,007 million from ¥776,207 million at the end of the previous fiscal year. The primary factors include a decrease of ¥10,965 million in retained earnings due mainly to the recording of ¥31,888 million in net loss attributable to owners of the Company during the fiscal year ended December 31, 2019.

(3) Overview of Cash Flows for the Fiscal Year ended December 31, 2019

Cash and cash equivalents as of December 31, 2019 was ¥1,478,557 million, an increase of ¥488,315 million from the end of the previous fiscal year. Cash flow conditions and their main factors for the fiscal year ended December 31, 2019 are as follows.

Net cash flows from operating activities

Net cash flows from operating activities for the fiscal year ended December 31, 2019 resulted in a cash inflow of ¥318,320 million (compared with a cash inflow of ¥145,615 million for the previous fiscal year). Main factors included a cash outflow of ¥364,138 million due to an increase in loans for credit card business and a cash outflow of ¥186,289 million due to an increase in financial assets for securities business, offset by a cash inflow of ¥805,850 million due to an increase in deposits for banking business.

Net cash flows from investing activities

Net cash flows from investing activities for the fiscal year ended December 31, 2019 resulted in a cash outflow of ¥286,290 million (compared with a cash outflow of ¥67,569 million for the previous fiscal year). Main factors included a cash outflow of ¥108,065 million due to purchase of property, plant and equipment, a cash outflow of ¥99,173 million due to purchase of intangible assets, and a net cash outflow of ¥67,187 million due to purchase and sales, etc. of investment securities for banking business (a cash outflow of ¥383,885 million due to purchase of investment securities, and a cash inflow of ¥316,698 million due to sales and redemption of investment securities).

Net cash flows from financing activities

Net cash flows from financing activities for the fiscal year ended December 31, 2019 resulted in a cash inflow of ¥458,340 million (compared with a cash inflow of ¥208,418 million for the previous fiscal year). Main factors included a cash outflow of ¥324,166 million due to repayment of long-term debt, offset by a cash inflow of ¥490,805 million due to proceeds from long-term debt, a cash inflow of ¥215,516 million due to issuance of bonds, and a cash inflow of ¥107,701 million due to an increase in short-term borrowings.

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019
Ratio of total equity attributable to owners of the parent company to total assets (%)	10.5	8.0
Ratio of total equity attributable to owners of the parent company to market capitalization (%)	13.5	13.8
Ratio of cash flows to interest-bearing liabilities (X)	8.5	6.0
Interest coverage ratio (X)	68.0	43.3

(Notes)

1. Ratio of total equity attributable to owners of the parent company to total assets: total equity attributable to owners of the parent company/total assets
2. Ratio of market capitalization to owners of the parent company to total assets: aggregate market value of shares/total assets
3. Ratio of cash flows to interest-bearing liabilities: interest-bearing liabilities/cash flows
4. Interest coverage ratio: cash flows/interest payments

(1) All ratios were calculated using consolidated financial figures.

(2) Market capitalization is calculated as the market value of shares at the end of the year multiplied by the total number of shares issued and outstanding at the end of the year.

(3) “Cash flow” stands for cash flows from operating activities.

(4) Future Outlook

For the forecast of consolidated operating results for the fiscal year ended December 31, 2020, the Rakuten Group aims for double-digit growth on the fiscal year ended December 31, 2019 consolidated revenue, 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 customers, promoting cross-use of services, strengthening its logistics network with a view to expanding the e-commerce platform, and further 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, raise the profile of the brand and provide new value to users.

FinTech

In credit card related services, we will continue striving to achieve further growth in shopping transaction value 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 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 the substantial impact of stock market conditions.

Mobile

In the mobile phone carrier business, which is scheduled for launch in April 2020, we will promote the development of our network nationwide, provide highly reliable communication services, and work to expand our customer base under the plans to establish specified radio stations for spreading the fourth-generation mobile communication system and introducing the fifth-generation mobile communications system, which were certified by the Minister of Internal Affairs and Communications in April 2018 and April 2019, respectively. As a result of these efforts, we expect increases in depreciation of property, plant and equipment and line usage fees in other companies' roaming areas.

(5) Policy Concerning Decisions on Profit Distributions and Dividend Forecast

As for the policy on shareholder returns, the Company strives to pay stable and continuous dividends, while taking into account the importance of making investments for medium-to long-term growth and ensuring sufficient internal reserves for the purpose of stabilizing our financial base. With respect to the required level of shareholders' equity, the Company's basic philosophy is as follows.

- Prepare a financial basis sound enough for the Company to capture growing business opportunities quickly and reliably
- Ensure sufficiency relative to the associated risks of business activities and assets
- Maintain a financial rating required for stable financing, while maintaining a level of shareholders equity in compliance with regulatory requirements

For the current fiscal year, the Company decided to pay a dividend of ¥4.5 per share (¥4.5 per share for the previous fiscal year) at the Meeting of the Board of Directors held on February 13, 2020, in accordance with the aforementioned basic policy.

(Reference) Trends in dividend per share (after adjustment for share split)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019
Dividend per share (yen)	4.50	4.50	4.50	4.50	4.50

Purchase of treasury stock will be determined flexibly, as a financial measure for the purpose of contributing to the enhancement of shareholder value.

(Reason for difficulty in making a dividend forecast)

The company's policy to maintain stable dividends runs alongside our strategy to retain sufficient income to build the reserves needed to develop our operations and maintain a sound financial structure. Allowing for flexible judgment in the fiscal year ending December 31, 2020, a dividend forecast is not provided.

2. Basic Policy on the Selection of Accounting Standards

The Group has adopted International Financial Reporting Standard (IFRS) from FY2013, for the purpose of enhancing comparability with the financial information of overseas companies in the same industry, expanding the scope of financing options, and unification of accounting treatment across the Group.

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

(Millions of yen)

	As of December 31, 2018	As of December 31, 2019
Assets		
Cash and cash equivalents	990,242	1,478,557
Accounts receivable – trade	181,026	222,485
Financial assets for securities business	1,789,832	1,976,009
Loans for credit card business	1,464,030	1,828,216
Investment securities for banking business	205,641	272,711
Loans for banking business	891,925	1,049,993
Investment securities for insurance business	277,057	287,200
Derivative assets	27,388	28,050
Investment securities	384,788	163,259
Other financial assets	275,800	390,234
Investments in associates and joint ventures	12,788	177,199
Property, plant and equipment	91,335	376,424
Intangible assets	553,815	609,450
Deferred tax assets	50,049	80,153
Other assets	149,286	225,757
Total assets	7,345,002	9,165,697
Liabilities		
Accounts payable – trade	255,353	329,483
Deposits of banking business	2,355,114	3,160,748
Financial liabilities of securities business	1,753,216	1,860,645
Derivative liabilities	9,213	10,172
Bonds and borrowings	1,234,143	1,727,096
Other financial liabilities	444,531	820,440
Income taxes payable	13,243	12,952
Provisions	90,516	109,845
Insurance business policy reserves	334,536	318,090
Employee retirement benefit liabilities	5,164	11,374
Deferred tax liabilities	13,059	2,049
Other liabilities	60,707	65,603
Total liabilities	6,568,795	8,428,497
Equity		
Equity attributable to owners of the parent company		
Common stock	205,924	205,924
Capital surplus	218,856	224,379
Retained earnings	424,568	413,603
Treasury stock	(97,300)	(92,305)
Other components of equity	22,425	(15,929)
Total equity attributable to owners of the parent company	774,473	735,672
Non-controlling interests	1,734	1,528
Total equity	776,207	737,200
Total liabilities and equity	7,345,002	9,165,697

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

(Millions of yen)

	Fiscal year ended December 31, 2018 (January 1 to December 31, 2018)	Fiscal year ended December 31, 2019 (January 1 to December 31, 2019)
Continuing Operations		
Revenue	1,101,480	1,263,932
Operating expenses	1,027,753	1,266,902
Other income	120,634	86,901
Other expenses	23,936	11,186
Operating income	170,425	72,745
Financial income	954	3,642
Financial expenses	4,132	9,027
Share of loss of investments in associates and joint ventures	1,824	111,918
Income (loss) before income tax	165,423	(44,558)
Income tax expense	23,534	(11,490)
Net income (loss)	141,889	(33,068)
Net income (loss) attributable to:		
Owners of the parent company	142,282	(31,888)
Non-controlling interests	(393)	(1,180)
Net income (loss)	141,889	(33,068)

(Yen)

Earnings (losses) per share attributable to owners of the parent company		
Basic	105.43	(23.55)
Diluted	104.38	(23.55)

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended December 31, 2018 (January 1 to December 31, 2018)	Fiscal year ended December 31, 2019 (January 1 to December 31, 2019)
Net income (loss)	141,889	(33,068)
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	(4,347)	16,505
Income tax effect of gains and losses on equity instruments measured at fair value through other comprehensive income	1,156	(4,061)
Remeasurement of insurance policy reserves based on current market interest rates	(1,059)	(4,582)
Income tax effect of remeasurement of insurance policy reserves based on current market interest rates	296	1,283
Remeasurement of defined benefit plans	(65)	(1,257)
Income tax effect of remeasurement of defined benefit plans	18	376
Share of other comprehensive income of associates and joint ventures	(4)	25
Total items that will not be reclassified to profit or loss	(4,005)	8,289
Items that will be reclassified to net income		
Foreign currency translation adjustments	(21,553)	(11,211)
Foreign currency translation adjustments due to the disposal (sale) of foreign operating business	7,476	154
Corporate income tax on foreign currency translation adjustments	—	1,166
Gains (losses) on debt instruments measured at fair value through other comprehensive income	1,459	1,560
Allowances for doubtful debts on debt instruments measured at fair value through other comprehensive income	87	(123)
Gains (losses) on debt instruments measured at fair value through other comprehensive income reclassified from other comprehensive income to profit or loss	(789)	(1,420)
Income tax effect of gains or losses on debt instruments measured at fair value through other comprehensive income	(229)	7
Gains (losses) on cash flow hedges recognized in other comprehensive income	(425)	(1,652)
Income tax effect of gains or losses on cash flow hedges recognized in other comprehensive income	10	431
Gains (losses) on cash flow hedges reclassified from other comprehensive income to profit or loss	550	649
Income tax effect of gains or losses on cash flow hedges reclassified from other comprehensive income to profit or loss	19	(136)
Share of other comprehensive income of associates and joint ventures	43	(7,464)
Share of other comprehensive income of associates and joint ventures reclassified from other comprehensive income to net income	(80)	—
Total items that will be reclassified to net income	(13,432)	(18,039)
Other comprehensive income, net of tax	(17,437)	(9,750)
Comprehensive income	124,452	(42,818)
Comprehensive income attributable to:		
Owners of the parent company	124,838	(41,643)

Non-controlling interests	(386)	(1,175)
Comprehensive income	124,452	(42,818)

(3) Consolidated Statements of Changes in Equity

(Millions of yen)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Other components of equity: Foreign currency translation adjustments	Other components of equity: Financial instruments measured at fair value through other comprehensive income
As of January 1, 2018	205,924	217,185	320,397	(103,616)	15,586	31,866
Cumulative impact from change in accounting policies	–	–	(35,421)	–	–	315
Current period balance reflecting change in accounting policy	205,924	217,185	284,976	(103,616)	15,586	32,181
Comprehensive income						
Net income	–	–	142,282	–	–	–
Other comprehensive income net of tax	–	–	–	–	(14,124)	(2,663)
Total comprehensive income	–	–	142,282	–	(14,124)	(2,663)
Transactions with owners						
Contributions by and distributions to owners						
Cash dividends paid	–	–	(6,060)	–	–	–
Reclassification from other components of equity to retained earnings	–	–	3,737	–	–	(3,737)
Disposal of treasury stock	–	(6,103)	–	6,316	–	–
Issuance of stock acquisition rights	–	7,776	–	–	–	–
Loss of stock acquisition rights	–	(72)	72	–	–	–
Others	–	–	(439)	–	–	–
Total contributions by and distributions to owners	–	1,601	(2,690)	6,316	–	(3,737)
Changes in ownership interests in subsidiaries						
Issuance of new shares	–	–	–	–	–	–
Acquisition and disposal of non-controlling interests	–	70	–	–	–	–
Others	–	–	–	–	–	–
Total changes in ownership interests in subsidiaries	–	70	–	–	–	–
Total transactions with owners	–	1,671	(2,690)	6,316	–	(3,737)
As of December 31, 2018	205,924	218,856	424,568	(97,300)	1,462	25,781

	Other components of equity: Cash flow hedges	Other components of equity: Remeasurement of insurance business policy reserves based on current market interest rates	Other components of equity: Remeasurement of retirement benefit plans	Other components of equity: Total other components of equity	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
As of January 1, 2018	(664)	(3,497)	–	43,291	683,181	227	683,408
Cumulative impact from change in accounting policy	–	–	–	315	(35,106)	–	(35,106)
Adjusted balance reflecting change in accounting policy	(664)	(3,497)	–	43,606	648,075	227	648,302
Comprehensive income							
Net income	–	–	–	–	142,282	(393)	141,889
Other comprehensive income net of tax	153	(763)	(47)	(17,444)	(17,444)	7	(17,437)
Total comprehensive income	153	(763)	(47)	(17,444)	124,838	(386)	124,452
Transactions with owners							
Contributions by and distributions to owners							
Cash dividends paid	–	–	–	–	(6,060)	–	(6,060)
Reclassified from other components of equity to retained earnings	–	–	–	(3,737)	–	–	–
Disposal of treasury stock	–	–	–	–	213	–	213
Issuance of share acquisition rights	–	–	–	–	7,776	–	7,776
Forfeiture of stock acquisition rights	–	–	–	–	–	–	–
Others	–	–	–	–	(439)	–	(439)
Total contributions by and distributions to owners	–	–	–	(3,737)	1,490	–	1,490
Changes in ownership interests in subsidiaries							
Issuance of common stock	–	–	–	–	–	319	319
Acquisition and disposal of non-controlling interests	–	–	–	–	70	–	70
Others	–	–	–	–	–	1,574	1,574
Total changes in ownership interests in subsidiaries	–	–	–	–	70	1,893	1,963
Total transactions with owners	–	–	–	(3,737)	1,560	1,893	3,453
As of December 31, 2018	(511)	(4,260)	(47)	22,425	774,473	1,734	776,207

(Millions of yen)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Other components of equity: Foreign currency translation adjustments	Other components of equity: 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 policies	–	–	(2,087)	–	–	–
Adjusted balance reflecting change in accounting policy	205,924	218,856	422,481	(97,300)	1,462	25,781
Comprehensive income						
Net income	–	–	(31,888)	–	–	–
Other comprehensive income net of tax	–	–	–	–	(17,354)	12,487
Total comprehensive income	–	–	(31,888)	–	(17,354)	12,487
Transactions with owners						
Contributions by and distributions to owners						
Cash dividends paid	–	–	(6,084)	–	–	–
Reclassified from other components of equity to retained earnings	–	–	28,599	–	–	(28,599)
Disposal of treasury stock	–	(4,927)	–	4,995	–	–
Issuance of share acquisition rights	–	10,584	–	–	–	–
Forfeiture of stock acquisition rights	–	(93)	93	–	–	–
Others	–	–	153	–	–	–
Total contributions by and distributions to owners	–	5,564	22,761	4,995	–	(28,599)
Changes in ownership interests in subsidiaries						
Issuance of common stock	–	–	–	–	–	–
Acquisition and disposal of non-controlling interests	–	–	–	–	–	–
Others	–	(41)	249	–	–	–
Total changes in ownership interests in subsidiaries	–	(41)	249	–	–	–
Total transactions with owners	–	5,523	23,010	4,995	–	(28,599)
As of December 31, 2019	205,924	224,379	413,603	(92,305)	(15,892)	9,669

	Other components of equity: Cash flow hedges	Other components of equity: Remeasurement of insurance business policy reserves based on current market interest rates	Other components of equity: Remeasurement of retirement benefit plans	Other components of equity: 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	–	–	–	–	(31,888)	(1,180)	(33,068)
Other comprehensive income net of tax	(708)	(3,299)	(881)	(9,755)	(9,755)	5	(9,750)
Total comprehensive income	(708)	(3,299)	(881)	(9,755)	(41,643)	(1,175)	(42,818)
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	–	–	–	(28,599)	–	–	–
Disposal of treasury stock	–	–	–	–	68	–	68
Issuance of stock acquisition rights	–	–	–	–	10,584	–	10,584
Loss of stock acquisition rights	–	–	–	–	–	–	–
Others	–	–	–	–	153	–	153
Total contributions by and distributions to owners	–	–	–	(28,599)	4,721	–	4,721
Changes in ownership interests in subsidiaries							
Issuance of new shares	–	–	–	–	–	1,226	1,226
Acquisition and disposal of non-controlling interests	–	–	–	–	–	–	–
Others	–	–	–	–	208	(257)	(49)
Total changes in ownership interests in subsidiaries	–	–	–	–	208	969	1,177
Total transactions with owners	–	–	–	(28,599)	4,929	969	5,898
As of December 31, 2019	(1,219)	(7,559)	(928)	(15,929)	735,672	1,528	737,200

(4) Consolidated Statement of Cash Flows

(Millions of Yen)

	Fiscal year ended December 31, 2018 (January 1 to December 31, 2018)	Fiscal year ended December 31, 2019 (January 1 to December 31, 2019)
Cash flows from operating activities		
Income (loss) before income tax	165,423	(44,558)
Depreciation and amortization	72,429	106,370
Impairment loss	4,168	4,641
Other loss (Income)	(101,050)	55,297
Decrease (Increase) in operating receivables	(36,059)	(47,356)
Decrease (Increase) in loans for credit card business	(281,335)	(364,138)
Increase (Decrease) in deposits for banking business	409,403	805,850
Net decrease (increase) in call loans for banking business	25,000	(15,000)
Decrease (Increase) in loans for banking business	(149,964)	(158,068)
Increase (Decrease) in operating payables	22,988	73,658
Decrease (Increase) in financial assets for securities business	99,080	(186,289)
Increase (Decrease) in financial liabilities for securities business	(36,938)	107,535
Others	(7,323)	12,290
Income tax paid	(40,207)	(31,912)
Net cash flows from (used in) operating activities	145,615	318,320
Cash flows from investing activities		
Increase in time deposits	(9,943)	(9,708)
Decrease in time deposits	8,863	10,929
Purchase of property, plant and equipment	(23,442)	(108,065)
Purchase of intangible assets	(64,140)	(99,173)
Acquisition of subsidiaries	(11,944)	(12,332)
Proceeds from acquisition of subsidiaries	10,826	—
Proceeds from sale of subsidiaries stock with change in scope of consolidation	26,234	—
Acquisition of investments in associates and joint ventures	(1,159)	(9,273)
Purchase of investment securities for banking business	(270,099)	(383,885)
Proceeds from sales and redemption of investment securities for banking business	267,557	316,698
Purchase of investment securities for insurance business	(111,154)	(150,338)
Proceeds from sales and redemption of investment securities for insurance business	121,901	161,501
Purchase of investment securities	(30,432)	(26,057)
Proceeds from sales and redemption of investment securities	18,547	53,740
Other payments	(9,222)	(42,077)
Other proceeds	10,038	11,750
Net cash flows from (used in) investing activities	(67,569)	(286,290)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(51,297)	107,701
Increase (Decrease) in commercial papers	80,000	18,500
Proceeds from long-term debt	290,976	490,805
Repayment of long-term debt	(271,356)	(324,166)
Proceeds from issuance of bonds	169,394	215,516
Redemption of bonds	(150)	(20,000)
Repayment of leases	(852)	(17,577)
Cash dividends paid	(6,056)	(6,113)
Others	(2,241)	(6,326)
Net cash flows from (used in) financing activities	208,418	458,340

(Millions of Yen)

	Fiscal year ended December 31, 2018 (January 1 to December 31, 2018)	Fiscal year ended December 31, 2019 (January 1 to December 31, 2019)
Effect of change in exchange rates on cash and cash equivalents	2,897	(2,055)
Net increase (decrease) in cash and cash equivalents	289,361	488,315
Cash and cash equivalents at the beginning of the period	700,881	990,242
Cash and cash equivalents at the end of the period	990,242	1,478,557

(5) Assumptions for going concern

No items to report

(6) Notes to the summary of consolidated financial statements

(Basis of presentation)

The Rakuten Group's Consolidated Financial Statements are prepared in accordance with IFRS set out by the International Accounting Standards Board. As it meets the requirements set out under Article 1-2 of the Rules on Terminology, Formats and Compilation Methods of Consolidated Financial Statements, under which the Rakuten Group is qualified as a "Specified Company under the Designated International Accounting Standards," the provision of Article 93 of the said rules is applied.

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

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, was as of the accounting period for the six months ended June 30, 2019, accounted by the equity method. This is due to, amongst other considerations, the Rakuten Group's stockholding and voting rights in Lyft, 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., the Rakuten Group is capable to exert significant influence on Lyft. Further, due to the agreements with Lyft, it is not practically feasible to align reporting periods, and consequently the equity method is applied in the Rakuten Group's consolidated financial statements with a three-month difference in reporting periods. 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. Altiostar is not treated as a subsidiary because the composition of the board members is agreed between stockholders of Altiostar, and the Group does not have control on a key decision-making body despite the Group's stockholding and voting rights exceeding 50%. The Group determined that it is possible to exert significant impact on Altiostar by holding shares, actively involving in the Board of Directors through appointing directors, and by material transactions with the company.

In addition, the Group's investment in Rakuten Medical, Inc. is accounted for through the adoption of the equity method because of an additional acquisition of its shares during the three months ended September 30, 2019.

(Changes in accounting policies)

Significant accounting policies adopted by the Rakuten Group in this summary of consolidated financial statements for the fiscal year ended December 31, 2019 basically remain the same as those adopted in the consolidated financial statements for the previous fiscal year, except for the items below.

Adoption of IFRS 16

The Rakuten Group adopted IFRS 16 from January 1, 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 shorter of the period of the lease or economic life, except for the case where it is reasonably certain that the Group acquire ownership of the lease assets by the termination date of the contract.

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 consistent 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 2019.

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 calculated in accordance with IAS 17, and the lease liabilities recognized at the time of the adoption of IFRS 16 amounted to ¥51,542 million, which largely reflects the impact of the revision of lease terms assessed at the time of 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.

(Change in presentation methods)

(Consolidated Statement of Changes in Equity)

The breakdown of contributions by and distributions to owners which were included in capital surplus in the fiscal year ended December 31, 2018, from the fiscal year ended December 31, 2019 have been disclosed separately as issuance of stock acquisition rights of ¥7,776 million and loss of stock acquisition rights of ¥72 million included in Others. In addition, in the consolidated statement of changes in equity for the fiscal year ended December 31, 2018, retained earnings which was included in contributions by distribution to owners, has from the fiscal year ended December 31, 2019 been disclosed separately as expiration of stock acquisition rights of ¥72 million in Others.

(Notes to Consolidated Statements of Cash Flows)

Increase in restricted deposits and decrease in restricted deposits, which had been presented separately under cash flows from investing activities in the previous fiscal year, have been included in Others starting from the current fiscal year due to less materiality.

In order to reflect these changes in presentation methods, the Consolidated Financial Statements for the previous fiscal year have been reclassified.

As a result, in the Consolidated Statements of Cash Flows for the fiscal year ended December 31, 2018, increase in restricted deposits, decrease in restricted deposits, other payments and other proceeds of ¥7 million, ¥8 million, ¥9,215 million and ¥10,030 million, which had previously been presented respectively under cash flows from investing activities, have been reclassified as other payments and other proceeds of ¥9,222 million and ¥10,038 million, respectively. In addition, ¥3,093 million of Others within Cash flows from financing activities has been reclassified as repayment of lease liabilities of 852 million yen and others of ¥2,241 million.

(Significant accounting estimates and judgments)

Preparation of the summary of consolidated financial statements under IFRS involves accounting estimates in respect of certain significant matters. 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 fiscal year ended December 31, 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 fiscal year ended December 31, 2019 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 fiscal year ended December 31, 2019, Internet Services segment revenue decreased by ¥7,045 million compared to before retroactive application, segment profit decreased by ¥2,121 million, and depreciation and amortization decreased by ¥17,907 million, FinTech segment revenue decreased by ¥1,114 million and segment profit decreased by ¥10,515 million, and depreciation and amortization increased by ¥3 million, and Mobile segment profit decreased by ¥1,004 million. There is no impact on consolidated revenue, Non-GAAP operating income, and operating income.

Fiscal year ended December 31, 2018 - (January 1 to December 31, 2018)

(Millions of Yen)

	Internet Services	FinTech	Mobile	Total
Segment Revenue	676,677	424,488	89,863	1,191,028
Segment Profit (Loss)	107,707	67,903	(13,672)	161,938
Other items				
Depreciation and amortization	18,181	30,752	6,047	54,980

Fiscal year ended December 31, 2019 - (January 1 to December 31, 2019)

(Millions of Yen)

	Internet Services	FinTech	Mobile	Total
Segment Revenue	792,512	486,372	119,808	1,398,692
Segment Profit (Loss)	90,738	69,306	(60,051)	99,993
Other items				
Depreciation and amortization	27,139	38,018	13,216	78,373

Reconciliation from Segment Revenue to Consolidated Revenue

(Millions of yen)

	Fiscal year ended December 31, 2018 (January 1 to December 31, 2018)	Fiscal year ended December 31, 2019 (January 1 to December 31, 2019)
Segment Revenue	1,191,028	1,398,692
Intercompany transactions, etc.	(89,548)	(134,760)
Consolidated Revenue	1,101,480	1,263,932

Reconciliation from Segment Profit to Income Before Income Tax

(Millions of Yen)

	Fiscal year ended December 31, 2018 (January 1 to December 31, 2018)	Fiscal year ended December 31, 2019 (January 1 to December 31, 2019)
Segment Profit	161,938	99,993
Intercompany transactions, etc.	(808)	(4,864)
Non-GAAP Operating Income	161,130	95,129
Amortization of Intangible Assets (PPA)	(10,982)	(8,764)
Stock Based Compensation	(7,833)	(10,137)
One-off Items	28,110	(3,483)
Operating income	170,425	72,745
Financial income and expenses	(3,178)	(5,385)
Share of income (loss) of associates and joint ventures	1,824	111,918
Income (loss) before income tax	165,423	(44,558)

3. Products and Services Information

Revenue from external customers by major products and services of the Group Companies is as follows:

(Millions of yen)

	Rakuten Ichiba and Rakuten Travel	Rakuten Card	Rakuten Bank	Rakuten Mobile	Others	Revenue from external customers
Fiscal year ended December 31, 2018	233,012	146,219	69,444	51,174	601,631	1,101,480
Fiscal year ended December 31, 2019	270,674	168,085	72,045	80,462	672,666	1,263,932

4. Geographic Information

For the year ended December 31, 2018

(Millions of yen)

	Japan	Americas	Europe	Asia	Others	Total
Revenue from external customers	877,578	167,810	28,812	26,496	784	1,101,480
Property, plant and equipment and intangible assets	299,731	232,484	103,112	9,622	201	645,150

For the year ended December 31, 2019

(Millions of yen)

	Japan	Americas	Europe	Asia	Others	Total
Revenue from external customers	1,006,394	197,798	28,509	30,447	784	1,263,932
Property, plant and equipment and intangible assets	638,234	233,304	100,718	13,434	184	985,874

5. Major Customers

For the year ended December 31, 2018

Disclosure of major customers is omitted because the proportion of revenue from an individual external customer does not exceed 10% of consolidated revenue.

For the year ended December 31, 2019

Disclosure of major customers is omitted because the proportion of revenue from an individual external customer does not exceed 10% of consolidated revenue.

Breakdown of Operating Expenses

(Millions of Yen)

	Fiscal year ended December 31, 2018 (January 1 to December 31, 2018)	Fiscal year ended December 31, 2019 (January 1 to December 31, 2019)
Advertising and promotion expenditures	193,279	230,842
Employee benefits expenses	176,373	206,144
Depreciation and amortization	72,429	106,370
Communication and maintenance expenses	27,361	30,667
Consignment and subcontract expenses	58,377	76,367
Allowance for doubtful accounts charged to expenses	40,048	44,555
Cost of sales of merchandise and service revenue	270,004	383,892
Interest expense for finance business	6,701	7,831
Commission expense for finance business	10,897	12,564
Insurance claims and other payments, and provision of policy reserves and others for insurance business	35,261	30,431
Others	137,023	137,239
Total	1,027,753	1,266,902

(Other Income)

(Millions of Yen)

	Fiscal year ended December 31, 2018 (January 1 to December 31, 2018)	Fiscal year ended December 31, 2019 (January 1 to December 31, 2019)
Foreign exchange gain		7,277
Gains on sales of subsidiary stock (note 1)	23,574	—
Valuation gains on securities (note 2)	79,220	75,120
Others	17,840	4,504
Total	120,634	86,901

Note 1: A gain on sales of shares in O-net, Inc. of ¥23,574 million was recorded for the fiscal year ended December 31, 2018.

Note 2: During the fiscal year ended December 31, 2018, the Group recorded ¥40,443 million in valuation gains on securities related to investments in the ride-sharing business. During the fiscal year ended December 31, 2019, the Group recorded ¥67,376 million in valuation gains on securities related to investments in the ride-sharing business, while recording ¥7,744 million in the healthcare business.

(Other Expenses)

(Millions of Yen)

	Fiscal year ended December 31, 2018 (January 1 to December 31, 2018)	Fiscal year ended December 31, 2019 (January 1 to December 31, 2019)
Foreign exchange gain	4,801	—
Loss on disposal of property, plant and equipment and intangible assets	810	2,504
Impairment loss	4,168	4,641
Others	14,157	4,041
Total	23,936	11,186

(Share of losses of investments in associates and joint ventures)

During the fiscal year ended December 31, 2019, it was deemed that there was objective evidence that the investment in Lyft, accounted for by the equity method, was impaired due to a significant decline in the market price of its shares, and the recoverable amount was based on the market price as of September 30, 2019. As a result, an impairment loss of ¥102,873 million was recorded. The fair value was based on the market price of the securities exchange and has been classified as Level 1 in the Fair Value Hierarchy. The impairment loss is presented in share of losses of investments in associates and joint ventures in the Consolidated Statements of Income.

(Earnings per Share)

Basic earnings per share are calculated by dividing the net income attributable to equity owners by the weighted average number of common stock outstanding during the year. The weighted average number of common stock outstanding during the year does not include treasury stock.

Diluted earnings per share are calculated on the assumption of full conversion of potentially dilutive common stock, adjusted for the weighted average number of common stock outstanding.

The Company has potential common stock related to stock options. The number of shares that may be acquired through these stock options is calculated at fair value (annual average stock price of the Company) based on the value of the stock acquisition rights that would be granted to unexercised stock options.

Per share information and the weighted average number of shares used in the calculation of earnings per share are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2018			Fiscal year ended December 31, 2019		
	Basic	Adjustments	Diluted	Basic	Adjustments	Diluted
Net income (loss) attributable to owners of the parent company (Millions of yen)	142,282	—	142,282	(31,888)	(0)	(31,888)
Weighted average number of shares (Thousands of shares)	1,349,560	13,535	1,363,095	1,354,167	—	1,354,167
Earnings per share (yen)	105.43	(1.05)	104.38	(23.55)	(0)	(23.55)

Note: For the fiscal year ended December 31, 2019, share acquisition rights corresponding to 23,335 thousand shares have been excluded from the calculation of diluted loss per share, as they have reverse dilutive effects.

Notes on significant subsequent events

No items to report