

July 23, 2019

Company name Rakuten, Inc.

Representative Hiroshi Mikitani

Chairman and CEO

(Stock Code: 4755

Tokyo Stock Exchange First Section)

**Announcement of Financial Results of
Rakuten Securities, Inc., a Consolidated Subsidiary**

Rakuten Securities, Inc. (President: Yuji Kusunoki. Head Office: Setagaya-ku, Tokyo), a consolidated subsidiary of Rakuten, Inc., today issued the attached press release relating to its consolidated financial reports (based on J-GAAP) for the six months ended June 30, 2019.

Rakuten Group plans to announce consolidated financial reports for the six months ended June 30, 2019, on August 8, 2019 (Thursday).

In addition, Rakuten Group announces financial results based on IFRS. The attached financial results of Rakuten Securities, Inc. are based on J-GAAP, which has different accounting processes for transactions from IFRS.

Financial Reports For the six months ended June 30, 2019

Rakuten Securities, Inc.

Rakuten Securities, Inc. (President: Yuji Kusunoki. Head Office: Setagaya-ku, Tokyo) consolidated financial reports for the six months ended June 30, 2019 (J-GAAP).

The financial reports of Rakuten Securities, Inc. are based on "Uniform Accounting Standards for Securities Companies" (set by the Board of Directors of the Japan Securities Dealers Association, November 14, 1974). Commodity futures transactions are based on "Uniform Accounting Standards for Commodity Futures Transactions" (set by the Board of Directors of the Commodity Futures Association of Japan, March 3, 1993).

Results for the six months ended June 30, 2019 (January 1, 2019 to June 30, 2019)

Consolidated Operating Results*

(Millions of yen, rounded down)

	Operating revenue	Net operating revenue	Operating income	Ordinary income	Net income
Six months ended June 30, 2019	27,622	26,411	5,597	5,158	3,094
Six months ended September 30, 2018	29,539	28,008	10,382	10,079	6,976

(Notes)

(Change of accounting policy)

(Application of Accounting Standard for Revenue Recognition)

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018, hereinafter referred to as "Revenue Accounting Standard") and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018), applicable from the consolidated fiscal year beginning April 1, 2018, has been applied from the beginning of this accounting period. When the control of the promised goods or services is transferred to the customer, the company recognizes revenue as the amount expected to be received in exchange for the goods or services.

This changes the way revenue is recognized, as financial expenses and selling and general expenses related to the transaction is offset with the revenue and only the net amount is recorded in case where the Company is an agent in the transactions involving third parties. In addition, incremental customer acquisition cost and fulfillment cost that is expected to be recoverable is recognized as an asset.

The application of the Revenue Accounting Standard is in accordance with the transitional treatment set forth in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition, and the aggregate amount of the impact on retroactive application of the new accounting policy prior to the beginning of the first quarter is added to the retained earnings at the beginning of the first quarter, and the new accounting policy is applied from the balance at the beginning of the current period. In addition, the method specified in Paragraph 86 paragraph (1) of the Accounting Standard for Revenue Recognition, for contract changes made prior to the beginning of the current quarter of the consolidated accounting

period, the following processes from 1 to 3 are performed, and the cumulative impact is added to retained earnings at the beginning of the first quarter of the current consolidated accounting period.

- 1) Classification of filled and unfilled portion of performance obligations
- 2) Calculation of transaction price
- 3) Allocation of transaction price to filled and unfilled portion of performance obligations

As a result, operating revenue decreased by 877 million yen, financial expenses decreased by 654 million yen, selling and general and administrative expenses decreased by 332 million yen, operating income, ordinary income, and income before income taxes and other adjustments increased by 110 million yen. In addition, the balance of retained earnings at the beginning of the fiscal year increased by 386 million yen.

* Quarterly financial disclosure is not subject to quarterly review by a certified public accountant or an audit firm.

(Reference information)

Results for the three months ended June 30, 2019 (April 1, 2019 to June 30, 2019)

Consolidated Operating Results

(Millions of yen, rounded down)

	Operating revenue	Net operating revenue	Operating income	Ordinary income	Net income
Three months ended June 30, 2019	13,236	12,584	2,261	2,085	1,185
Three months ended June 30, 2018	14,619	13,882	5,272	5,108	3,489

(1) Consolidated Balance Sheet

(Millions of yen)

	As of December 31, 2018	As of June 30, 2019
(Assets)		
Current assets	1,537,370	1,557,073
Cash and deposits	101,805	74,531
Cash segregated as deposits	994,997	1,065,232
Money held in trust	1,300	1,500
Trading products	33,484	26,115
Trading securities and others	856	905
Derivatives	32,627	25,210
Operating investment securities for sale and others	8	8
Trade date accrual	1,388	247
Margin transaction assets	344,016	331,541
Loans on margin transactions	319,016	285,543
Cash collateral pledged for securities borrowing on margin transactions	25,000	45,997
Advances paid	692	125
Cash paid for offering	4,755	4,151
Securities received as collateral *1	229	229
Short-term guarantee deposits	42,320	42,780
Variation margin paid	3,384	1,379
Advance payments	533	719
Prepaid expenses	500	505
Accounts receivable – other	1,944	1,932
Accrued revenues	6,102	6,284
Allowance for doubtful accounts	(92)	(209)
Fixed assets	29,475	30,651
Tangible fixed assets	1,695	1,780
Buildings	412	412
Furniture and fixtures	1,282	1,129
Lease assets	–	238
Intangible fixed assets	25,906	26,247
Goodwill	6,143	5,827
Customer relationships	1,200	1,104
Software	16,605	17,560
Software in progress	1,957	1,410
Lease assets	–	344
Investments and other assets	1,873	2,622
Investment securities	422	437
Long-term loans receivable	253	292
Long-term guarantee deposits	1,209	1,207
Long-term prepaid expenses	36	54
Deferred tax assets	133	163
Others	1,355	2,511
Allowance for doubtful accounts	(1,537)	(2,044)
Total assets	1,566,846	1,587,725

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(Millions of yen)

	As of December 31, 2018	As of June 30, 2019
(Liabilities)		
Current liabilities	1,467,223	1,489,101
Trading products	14,802	4,792
Trading securities and others	0	—
Derivatives	14,801	4,792
Margin transaction liabilities	67,423	107,040
Borrowings on margin transactions	13,688	20,839
Cash received for securities lending on margin transitions	53,735	86,200
Loans payable secured by securities	246,463	135,799
Cash received on debt credit transactions of securities	246,463	135,799
Deposits received	765,602	795,242
Guarantee deposits received *2	285,413	295,043
Accounts for non-received securities and others	36	2
Short term loans payable	82,000	145,000
Advances received	334	281
Accrued revenue	6	7
Lease obligations	—	102
Accounts payable – other	99	122
Accrued expenses	3,497	3,303
Income taxes payable	1,160	1,922
Provision for employees' bonuses	227	268
Provision for directors' bonuses	30	10
Provision for sales promotion expenses	122	161
Other current liabilities	2	1
Fixed liabilities	231	893
Lease obligations	—	549
Net defined benefit liability	55	168
Asset retirement obligations	175	175
Statutory reserves	3,755	3,755
Reserve for financial products liabilities	3,743	3,743
Reserve for liability for commodities transactions	11	11
Total liabilities	1,471,210	1,493,750
(Net assets)		
Shareholders' equity		
Capital stock	7,495	7,495
Capital surplus	4,511	4,511
Retained earnings	84,094	82,576
Total shareholders' equity	96,101	94,583
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3	1
Foreign currency translation adjustment	(468)	(609)
Total accumulated other comprehensive income	(465)	(608)
Total net assets	95,636	93,974
Total liabilities and net assets	1,566,846	1,587,725

*1: Securities received as collateral for commodity futures transactions (Securities deposited with a Commodity Clearing Organization as clearing margins for transactions by consignors and others).

*2: Includes JPY 229 million securities in the fiscal year ended December 31, 2018 and JPY 229 million securities in six months ended June 30, 2019 received as substitute for clearing margins etc. from consignors and others for commodity futures transactions.

(2) Consolidated Statements of Income

	(Millions of yen)	
	Six months ended September 30, 2018 (April 1 – September 30, 2018)	Six months ended June 30, 2019 (January 1 – June 30, 2019)
Operating revenue	29,539	27,622
Commission received	10,540	9,336
Commission to consignees	7,583	6,715
Commission for underwriting, secondary distribution and solicitation for selling and others for professional Investors	16	13
Fee for offerings, secondary distribution and solicitation for selling and others for professional investors	776	540
Other commissions received	2,163	2,067
Net trading income	6,972	8,288
Operating Investment securities for sales and others	(0)	(0)
Financial revenue	11,536	9,569
Other operating revenue	490	427
Financial expenses	1,531	1,211
Net operating revenue	28,008	26,411
Selling, general, and administrative expenses	17,626	20,813
Trading related expenses	8,169	9,085
Personnel expenses	2,292	2,569
Real estate expenses	961	981
Office expenses	2,671	3,478
Depreciation	2,855	3,338
Taxes and dues	362	357
Goodwill amortization	282	276
Provision for allowance for doubtful accounts	(47)	635
Others	78	89
Operating income	10,382	5,597
Non-operating income	12	11
Non-operating expenses	315	451
Ordinary income	10,079	5,158
Extraordinary gains	30	—
Extraordinary losses	0	281
Income before income taxes and other adjustments	10,109	4,876
Income taxes – current	3,066	1,984
Income taxes – deferred	66	(201)
Total income taxes	3,132	1,782
Net income	6,976	3,094
Profit (loss) attributable to owners of parent	6,976	3,094

(3) Consolidated Statements of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2018 (April 1 – September 30, 2018)	Six months ended June 30, 2019 (January 1 – June 30, 2019)
Net income	6,976	3,094
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	(1)
Foreign currency translation adjustment	260	(140)
Total other comprehensive income	259	(142)
Net comprehensive income	7,236	2,951
(Breakdown)		
Comprehensive income attributable to owners of parents	7,236	2,951
Comprehensive income attributable to non-controlling interests	—	—