

# **INNOVATION**

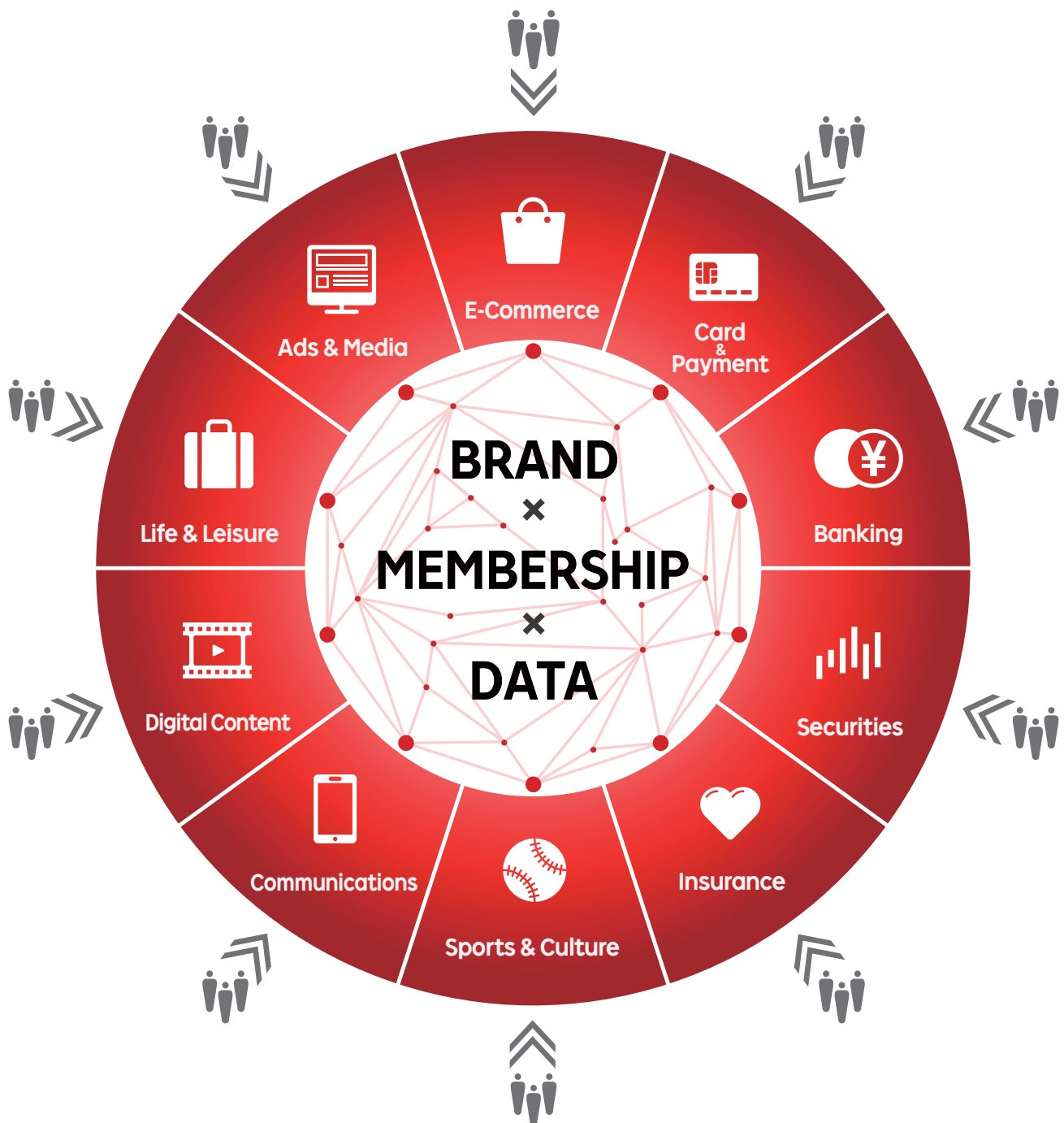
# **Annual Report**

**Fiscal Year Ended December 31, 2016**



# Rakuten Ecosystem

Since the launch of the e-commerce marketplace Rakuten Ichiba in 1997, Rakuten has expanded to offer diverse services in e-commerce, FinTech, ad tech, Digital content and communications to more than 1.1 billion members around the world.



# Rakuten Global Presence

Rakuten's partnership with world-famous Spanish soccer team FC Barcelona (a.k.a. Barca) will power increased global awareness, as Rakuten's 1.1 billion members around the world will encounter the Rakuten brand through Barca. We believe this is a tremendous opportunity.



**Rakuten**



**FC BARCELONA OFFICIAL  
INNOVATION & ENTERTAINMENT PARTNER**

# BIG D

**Global  
Membership**

**1.1**  
billion

**Global  
Annual GTV**

**¥ 10.7**  
trillion

**Geographical  
Presence**

**190**  
countries

# DATA

**Japan Registered  
Membership**

**90**

**million\*<sup>1</sup>**

**Domestic EC  
Annual GMS**

**¥3.0**

**trillion**

**Business Line-up  
in Japan**

**70**

**services**

(As of December 31, 2016, except \*1)  
\*1. As of March 31, 2017

**Rakuten Viber**

A global instant messaging and calling app boasting over 850 million unique ID numbers.



A cash back platform with a transaction volume of US\$6.5 billion.

**楽天銀行**

One of the largest internet banks in Japan, already with over 5.6 million accounts.

**Rakuten kobo**

A global eReading service in over 190 countries.

**Rakuten OverDrive**

A distributor of digital books to libraries and educational facilities in international markets.

# ONLINE



**Rakuten Ichiba**

Japan's largest internet shopping mall, with a B2B2C business model and over 44,500 participating merchants

**Rakuten CAFE**

Featuring a menu of popular desserts and snacks from Rakuten Ichiba along with a variety of Rakuten services.



The heart of the popular Rakuten loyalty points program used both online and offline.

**R Mobile**

No.1 mobile virtual network operator (MVNO) in Japan with over 110 physical shops around Japan.



Lockers installed at 22 places in Japan for convenient pickup of goods ordered on Rakuten Ichiba.

**Rakuten Drone**

A prototype delivery service that utilizes drones.

# OFFLINE



**Rakuten Card**

The credit card ranked No.1 in customer satisfaction in Japan with annual transaction volume over ¥5 trillion

## **Our Philosophy**

Innovation is at the core of Rakuten culture and  
is critical to our identity and success.

In 2016, we adopted a new corporate vision:

# **Global Innovation Company**

## **Our Mission**

**Contribute to society  
by creating value through  
innovation and entrepreneurship**



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To Our Shareholders

# Rakuten: Global Innovator



**Hiroshi Mikitani**  
Chairman and CEO

Since the launch of our internet shopping mall, Rakuten Ichiba, in 1997, we have introduced services in a wide range of areas, from e-commerce and finance to digital content and telecommunications. Our diverse businesses are centered on a membership base created through a common ID system that forms the core of a unique environment known as the “Rakuten Ecosystem.”

Rakuten continues to innovate, improving productivity and encouraging new business creation. Our organization and structure also continue to evolve to support innovation and growth. The workforce has grown from just six people at establishment, to around 14,000 today. I am proud of the team’s achievements. They have built us into a corporate group that generates gross transaction value of more than ¥10 trillion by providing innovative services to over one billion users worldwide.

As the internet has become a given in our everyday lives, consumer patterns of behavior and even what it means to be a nation are being redefined. In this context, last year, we set a new vision for Rakuten as a “Global Innovation Company”. This vision captures how we will continue to work to create a better future for everyone, by always taking on new challenges, anticipating what lies ahead from a global perspective, and constantly evolving, without fear of failure.

At the same time, as we leverage big data and artificial intelligence (AI) to evolve and improve our service delivery and quality, we are also going above and beyond online services and expanding into new offline areas, such as the mobile virtual network operator (MVNO) business, real-time mobile payment services, and drone delivery services. In addition, the 2017/2018 European football season will see the launch of our partnership with FC Barcelona, one of the most respected teams in the world. As Main Global Partner and the first-ever Global Innovation and Entertainment Partner, we will take global awareness of the Rakuten brand and our corporate values to an entirely new level.

Empowering individuals, businesses and society to realize their dreams, through innovation and entrepreneurship, is at the heart of our corporate mission and essential to our own success. This mission helps to ensure that we are on the right path to leverage Rakuten’s unique capabilities for the achievement of sustainable growth and building corporate and shareholder value. As we make further progress along this path, we look forward to the continuing support of our shareholders.

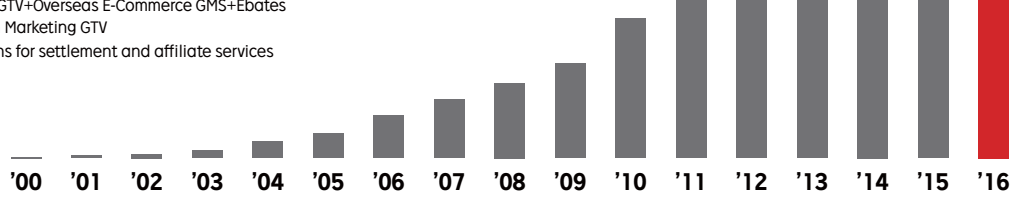
A handwritten signature in black ink that reads "Hiroshi Mikitani". The signature is written in a cursive, flowing style.

# Growth in 20 Years



Innovations such as the launch of the Rakuten Ichiba internet shopping mall, Rakuten Points, and the development of FinTech have driven growth to a size and international scope far beyond original expectations in 1997.

\*1. Global Gross Transaction Value=Domestic E-Commerce GMS+Credit Card GTV+Edu GTV+Rakuten Point Card GTV+Overseas E-Commerce GMS+Ebates GMS+Digital Contents GT+Rakuten Marketing GTV  
\*2. Includes intercompany transactions for settlement and affiliate services



# Vision 2020

Our mid-term strategy Vision 2020 provides insights to improve our long-term performance by assessing each business unit against three growth principles. Innovation will drive this growth.

**Strong Businesses**  
Formidable competitive positions, growth of 10-30%

**Smart Businesses**  
Niche/unique, meaningful share, sustainable profit, growth of 25-75%

**Speed Businesses**  
Entrepreneurial, disruptive, targeting very high growth of 70%+

**Domestic E-Commerce:**  
Operating income\* is targeted to rise from ¥96 billion in 2015 to ¥160 billion in 2020, GMS from ¥2.7 trillion to ¥5.2 trillion

**FinTech:**  
Operating income is targeted to rise from ¥64 billion in 2015 to ¥120 billion in 2020

**Overseas E-Commerce:**  
Ebates GMS is targeted to rise from US\$4.9 billion in 2015 to US\$15 billion in 2020, operating income from ¥3.5 billion to ¥20 billion

**Rakuten Marketing:**  
Operating income is targeted to rise from ¥4.6 billion in 2015 to ¥10 billion in 2020

**Other Internet Services:**  
Contribution of income from Rakuten Kobo+OverDrive, operating income is targeted to turn from ¥18 billion loss in 2015 to ¥20 billion profit in 2020

**Viber:**  
Planning rapid expansion to 2 billion unique IDs in 2020

**Rakuten Mobile:**  
Rapid growth as an MVNO

**Other Segment:**  
Operating income is targeted to be positive in 2020

\*Operating income is on a non-GAAP basis

# Leading FinTech

## Further expansion of Rakuten Card and Rakuten Bank

### FinTech in Japan

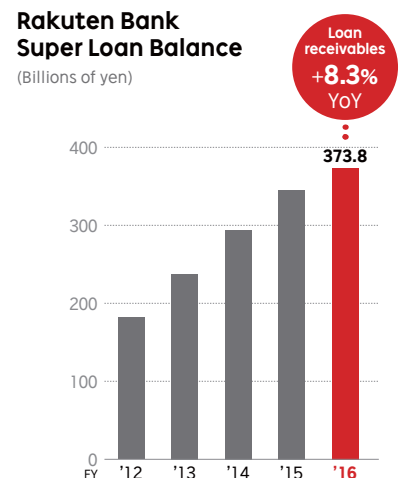
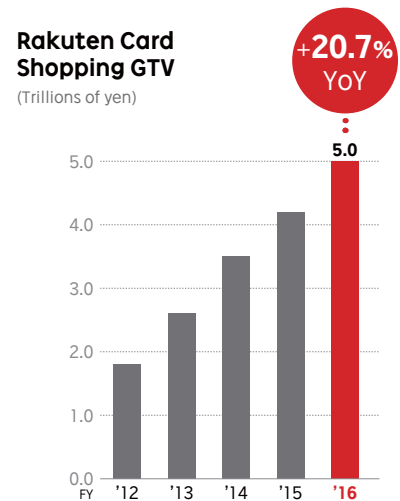
One goal of our medium-term strategy Vision 2020 is to propel Rakuten Card to the top in terms of market share, by increasing card gross transaction value (GTV) to ¥7-8 trillion and 20 million cardholders. Top-ranked in a customer satisfaction survey for eight consecutive years, Rakuten Card is currently the third-largest credit card company in Japan by GTV with over 14 million cardholders. In 2017, it is poised to become the No.1 company in terms of GTV as innovations push transactions beyond the ¥5.0 trillion level.

In banking services, profits continued to grow despite Japan's negative interest rate policy, due in part to an increase in interest income from loans. Rakuten Bank's loan balance surged 32.0% year on year, while the Bank continues to improve its operating efficiency. Rakuten Bank's core net business profit climbed 17.9% year on year to ¥17.8 billion, and the number of accounts grew to 5.7 million (a year-on-year increase of 8.7%). The deposit balance climbed to ¥1.6 trillion (a year-on-year increase of 9.0%), the loan balance to ¥587.9 billion (a year-on-year increase of 32.0%), and the super loan balance to ¥373.8 billion (a year-on-year increase of 8.3%).

In securities services, the negative impact of volatile market conditions markedly depressed revenue and profits. Nevertheless, Rakuten Securities continues to move forward on the expansion of its investment trust and Forex activities, and positive changes in its profit structure.

Rakuten Life Insurance, the fourth leg of domestic FinTech services, is achieving healthy growth. It holds 316,000 life insurance policies with total annualized premiums of ¥11.4 billion. In April 2017, Rakuten Life Insurance began efforts to improve brand recognition and its omni-channel experience.

### Rakuten Card aims to be **the No.1 company** in domestic market share (GTV basis)



Rakuten Card (Mastercard)



Rakuten Gold Card (Mastercard)



Rakuten ANA Mileage Club Card (Visa)



Rakuten Card:  
Shopping Panda Limited Version (JCB)

## Cards issued by Taiwan Rakuten Card surpass 200,000 in the first year.



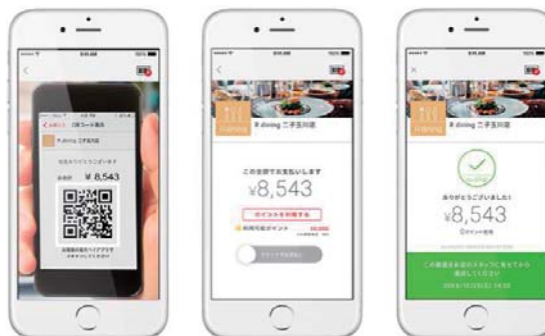
### FinTech Expands beyond Japan

Rakuten Card expanded operations into the United States in April 2014. In January 2015, we launched the Taiwan Rakuten Card, the first of its kind in Taiwan issued by a global e-commerce company, and Rakuten's first overseas card. As in Japan, it has united shoppers' online and offline worlds with generous point accrual incentives and other unique features. We enhanced overseas banking services with the commencement of full-scale European commercial banking operations by Rakuten Europe Bank S.A., based in Luxembourg. Rakuten Securities expanded its Forex business into Hong Kong in 2015, and followed that with the purchase of FXAsia Pty Ltd, an operator of Forex services in Australia, in 2016. Additionally, Rakuten Securities opened the first online retail securities business in Malaysia.

### Payment Services

Rakuten Pay (unified and rebranded in-store settlement) is launching a service supporting 14 major electronic money brands and Android Pay™ in the summer of 2017. The Rakuten Point Card and Rakuten Edy electronic money service are now compatible with Android Pay™. Also, Apple Pay has been available to Rakuten customers in Japan since October 2016.

Rakuten Pay launches service supporting major electronic money brands and Android Pay™



# Accelerating E-Commerce

E-Commerce growing stronger in Japan and overseas

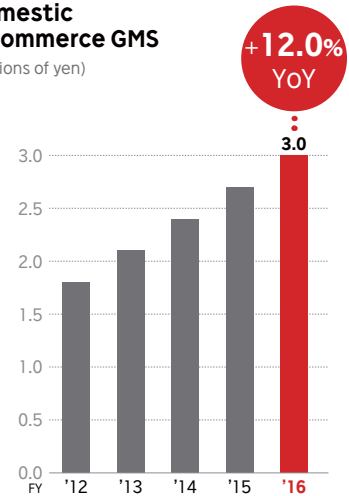
The growth of domestic e-commerce gross merchandise sales (“GMS”) accelerated in 2016. In Japan, to build out our long-term and loyal customer base, we conducted programs to raise customer satisfaction, strengthen services for smart devices, and open up the Rakuten Ecosystem.

Overseas, e-commerce is on track to improve overseas internet services on contributions from the steady growth of Ebates.

## Domestic E-Commerce

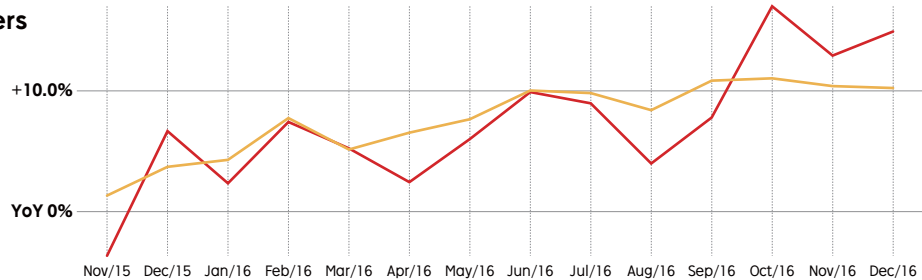
GMS in Japan rose 12.0% year on year to ¥3 trillion, largely due to the prolonged popularity and impact of the Super Point Up (SPU) program, which encourages users to stay within the Rakuten ecosystem. The number of users and number of orders on Rakuten Ichiba, our internet shopping mall, both steadily increased, the ratio of customers who paid with a Rakuten Card increased to 51.2% in December 2016, and the Rakuten Ichiba mobile GMS ratio (mobile app GMS to total online GMS) reached 60.8% in the fourth quarter of 2016.

Domestic E-commerce GMS (Trillions of yen)



## Increasing Ichiba Users and Orders

— Monthly Unique Purchasers  
— Number of Orders



## Service Enhancement

We have been especially keen to launch and upgrade services that contribute to a positive user experience, and in 2016, many of those service enhancements focused on making post-purchase delivery faster and more convenient.

## Continuing SPU strategy

Rakuten Super Point Up Program Maximum 7X Rakuten Points



## The **Sora Raku** delivery service using drones will increase our customer satisfaction.

They included Rakuten BOX, a service that sends orders to specialized delivery lockers at train stations for later pick up by the customer, a similar service in partnership with Sagawa Express for pick up at convenience stores, and in cooperation with Japan Post, a parcel delivery locker service at selected post offices.

In December, we acquired all the outstanding shares of Soukai Drug Co., Ltd., an internet-based seller of a wide range of household products. With deepened collaboration with previously acquired wholly owned subsidiary Kenko.com, we are expecting to expand sales volume, increase efficiency of the system and logistics infrastructure, optimize operating resources such as personnel and network/data, and realize rapid implementation of business synergies.

In May 2016, Rakuten launched a trial prototype drone delivery service Sora Raku, and in November, held the world's first successful demonstration of a drone delivery service operated via a smartphone LTE network.

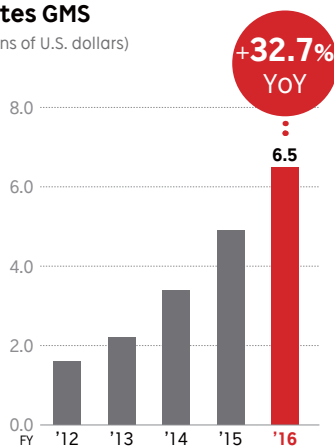
In Japan, Mobile C2C service Rakuma is a smartphone "flea market" where individuals post items and negotiate prices one-on-one with buyers. Fril is a C2C marketplace for fashion items. Total GMS for Rakuma and Fril has expanded rapidly since fall 2016 at an accelerating growth rate. The mobile C2C service Rakuma was enhanced in 2016 with the launch of a Fixed-Rate Pack shipping service as well as a convenience store dispatch and pick-up service at FamilyMart stores.



## Overseas, **Ebates** contributed significantly to the growth of business results.

### Ebates GMS

(Billions of U.S. dollars)



### Overseas E-Commerce

In 2016, Rakuten Marketing won the Blue Book Award as the Best Affiliate Network, for the 5th year in a row. In 2016, Ebates GMS increased by 32.7% year on year to \$6.5 billion. In Europe, Rakuten made noteworthy gains in Germany, where Rakuten.de increased its GMS by 103% year on year, and in France, where PriceMinister rapidly grew its "Price Club" membership. Rakuten was also active in Asia, entering into collaboration with South Korean e-commerce sites 11Street and Gmarket, launching the Rakuma mobile C2C service in Taiwan, and partnering with major Chinese e-commerce site Kaola.com.

Global gross transaction value of the Rakuten Group totaled ¥10.7 trillion (a year-on-year increase of 18.0%), and global membership of Rakuten Group services rose to 1.1 billion members. In the U.S., backed by over US\$14 billion GMS, our U.S. Non-GAAP EBITDA grew rapidly to \$7.3 billion (a year-on-year increase of 139%).

# Enhancing Media & Communications

Taking customer experience to higher levels

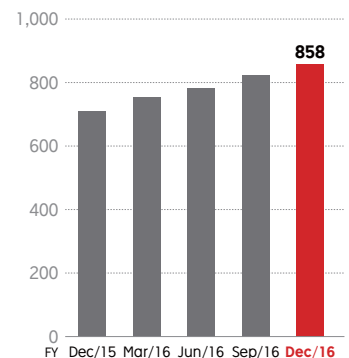
## Mobile and Telecommunications Business

Viber had 858 million unique IDs as of December 2016. In 2016, it added the new Chat Extensions and Video Message features along with a service known as “Transfer by Viber,” which enables easy money transfers to anyone on the user’s Viber contact list from the Rakuten Bank app. Rakuten Mobile, which provides mobile virtual network operator (MVNO) services, is growing rapidly, and Rakuten members now receive Rakuten Super Points for their monthly usage payments. It is No.1 in terms of domestic MVNO market share\*, and also has successfully expanded products, accessories and services, while also increasing its bricks-and-mortar touch points to 111 locations in 35 prefectures—enabling a new service, namely online purchase and in-store pick-up.

\*Source: MOBILE MARKETING DATA LABO  
MVNO (SIM) User Trend Survey, as of September 2016



**Viber Unique IDs**  
(Millions of IDs)



**No.1 share  
in domestic  
MVNO(SIM) market**

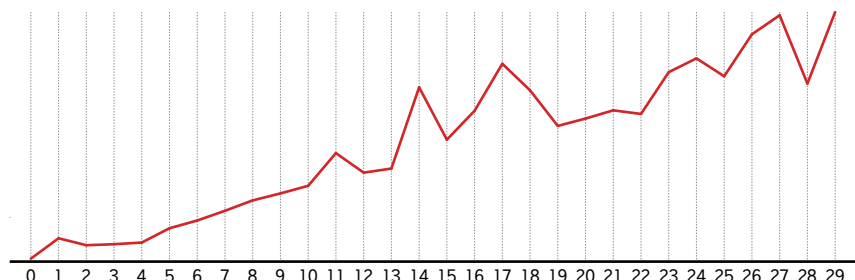


Viber’s unique IDs exceed  
**850 million.**



**Rakuten Mobile Users**

\*Month(s) since service launched





## E-Books

In the E-Book Business, Rakuten Kobo and OverDrive are growing steadily as their synergies strengthen. Kobo accomplished an 18.9% year-on-year expansion in content to boost overall sales, launched an e-book store in Taiwan, and released an advanced reading E Ink device, the Kobo Aura ONE. Rakuten Kobo became Tolino's tech partner in Germany in 2017. OverDrive saw a steady 16.7% year-on-year increase in the number of total checkouts. Rakuten invested in getAbstract, the global leader in compressed digital content, for further global growth.

In August 2016, Rakuten launched "Rakuten Magazine" in Japan, a flat-rate digital magazine subscription service that provides unlimited access to over 200 digital titles via smartphone or tablet.



**Rakuten MAGAZINE**

Rakuten Magazine readers can enjoy about **200 titles**.



**kobo aura ONE**

**Rakuten OverDrive**

**Rakuten kobo**

**Rakuten Kobo launched its world-class eReading service in Taiwan**

<https://tw.kobo.com/>

## Other

In August 2016, Rakuten launched "Rakuten Music," a service offering unlimited streaming of music for a fixed rate through an iOS or Android app. Rakuten Music is a "one-stop music service" allowing users to listen to and buy music seamlessly.

# Financial Stability

## Adding new strength to the top and bottom lines

While growing our revenues, Rakuten also keenly pursues sustainable productivity improvements. A key example is Project V6, which concluded in 2016 after surpassing the initial target to cut ¥10 billion from budgeted operating expenses, through shared best practices for improving productivity.

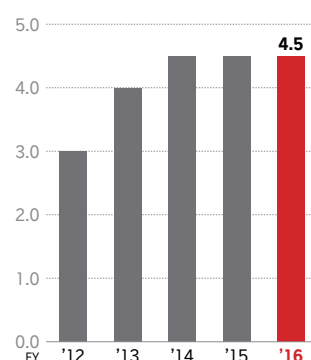
### Rakuten Ventures Japan Fund and Rakuten FinTech Fund

Rakuten Ventures launched the ¥10 billion Rakuten Ventures Japan Fund in 2016. The new fund is aimed at early and growth stage internet startups in Japan, with a strong focus on unique technologies and business models, as well as high growth potential.

The Rakuten FinTech Fund, launched in 2015, is a US\$100 million global investment fund focused on investments in disruptive early to mid-stage FinTech startups that offer attractive potential return with strategic relevance.

### Cash Dividends per Share

(Yen)



## New Rakuten Company System

### Objective

To accelerate rapid response to customer needs and maximize customer satisfaction

### Approach

Redesigned organization to 11 companies and 6 divisions

### Transition to a Company-System Organization

In July 2016, Rakuten transitioned to a company-system structure, an initiative designed to assure maximum responsiveness, service quality and customer satisfaction at this stage of our evolution. The new structure is comprised of 11 company groups to manage the business operations, and one group headquarters to provide corporate functions.

### Enhancing Shareholder Value

Rakuten's basic policy on shareholder return takes 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. For the current fiscal year, Rakuten decided to pay a dividend of ¥4.5 per share.

Rakuten announced its decision on February 17, 2017, to buy back up to 120 million shares, for a maximum ¥100 billion, over one year between February 22, 2017 to February 21, 2018. The market price of our shares, capital efficiency, and financial conditions were all taken into consideration.

## Financial Highlights

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2014	2015	2016	2016
<b>Income and Loss</b>				
Revenue	¥ 598,565	¥ 713,555	¥ 781,916	\$ 7,122,571
Operating income (Non-GAAP) (Note 2)	118,092	152,153	119,080	1,084,711
Operating income (IFRS)	106,397	94,689	77,977	710,301
Net income	71,103	44,280	38,001	346,156
<b>Cash Flows</b>				
Net cash flows from operating activities	¥ 111,860	¥ 78,245	¥ 30,700	279,649
Net cash flows from used in investing activities	(261,085)	(224,078)	(26,841)	(244,494)
Net cash flows from financing activities	189,512	221,831	45,200	411,732
<b>Assets and Liabilities</b>				
Total assets	¥3,680,695	¥4,269,953	¥4,604,672	\$41,944,540
Total liabilities	3,252,609	3,605,940	3,924,326	35,747,183
Total net assets	428,086	664,013	680,346	6,197,357
		Yen		U.S. dollars
<b>Earnings per Share Attributable to Owners of the Company</b>				
Net income (basic)	¥ 53.47	¥ 32.33	¥ 26.65	\$ 0.29
Net income (diluted)	53.15	32.09	26.44	0.29
Dividend per Share	¥ 4.5	¥ 4.5	¥ 4.5	\$ 0.04

**Note 1:** U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥109.78 to US\$ 1, the approximate rate of exchange at December 31, 2016.

**2:** Non-GAAP operating income excludes amortization of intangible assets, stock-based compensation expense and other items such as gains and losses from impairments, acquisitions and change in accounting treatment.

## Overview

### Business Results for Fiscal Year 2016 (Non-GAAP basis)

The Rakuten Group has implemented strategic actions in line with its medium-term strategy “Vision 2020” announced in February 2016. In domestic e-commerce services, the mainstay of Internet Services, the Rakuten Group is making every effort towards further revenue growth by implementing various measures.

These include programs with the aim of improving customer satisfaction, aggressive sales activities and strategies to enhance services for smart devices (smartphones and tablet devices) and to open up the Rakuten Ecosystem. Results are on track for improvement in overseas internet services, due to contributions from the steady growth in U.S. subsidiary Ebates Inc. (“Ebates”) and other factors. In the FinTech segment, further expansion of the membership base of Rakuten Card brought in more commission income, while there was also solid growth in banking services. These contributed to a solid increase in

both revenue and profit, even as the securities services suffered from a slump in the stock market.

As a result, the Rakuten Group achieved revenue of ¥781,916 million, up 9.6% year-on-year, for the fiscal year ended December 31, 2016. However, mainly affected by increased expenses due to aggressive sales activities, the absence of unrealized gains on stocks recorded during the previous fiscal year, and a slump in the stock market, non-GAAP operating income fell by 21.7% year-on-year to ¥119,080 million.

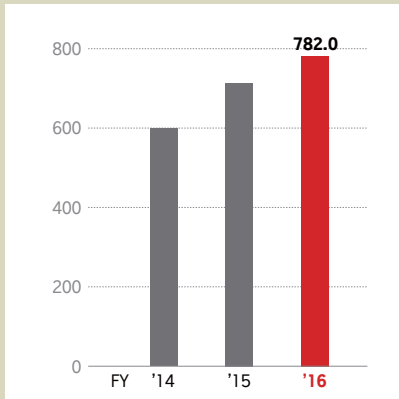
### Business Results for Fiscal Year 2016 (IFRS basis)

The Rakuten Group recorded revenue of ¥781,916 million, up 9.6% year-on-year, operating income of ¥77,977 million, down 17.6% year-on-year, and net income attributable to owners of the parent company of ¥37,995 million, down 14.5% year-on-year, for the fiscal year ended December 31, 2016.

# Key Figures

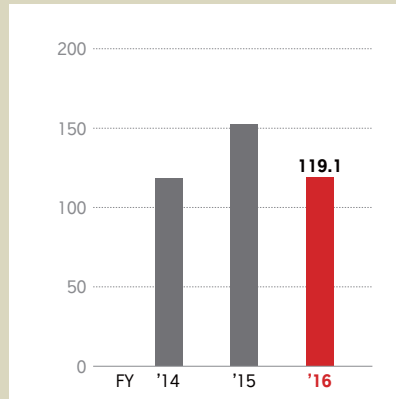
## Revenue

(Billions of yen)



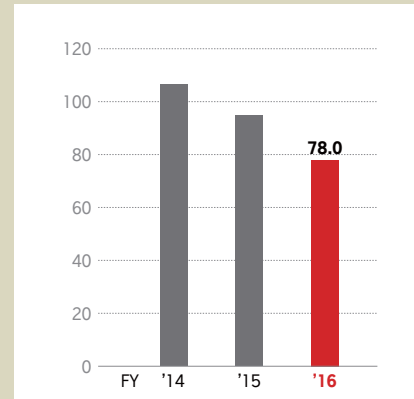
## Operating Income (Non-GAAP)

(Billions of yen)



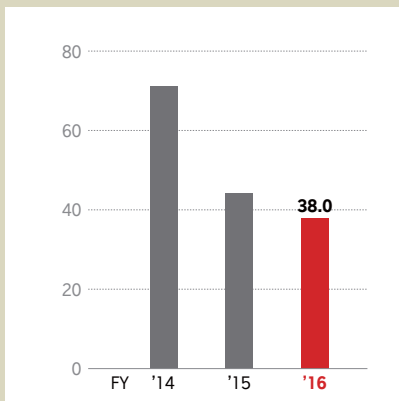
## Operating Income (IFRS)

(Billions of yen)



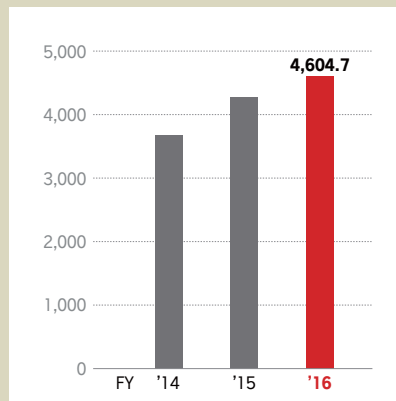
## Net Income

(Billions of yen)



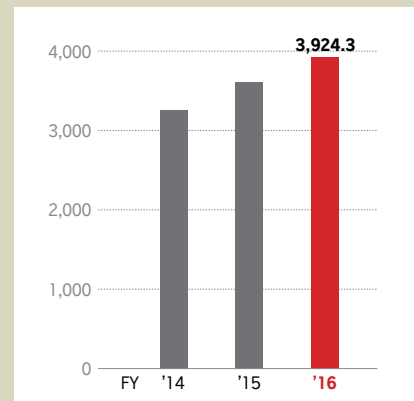
## Total Assets

(Billions of yen)



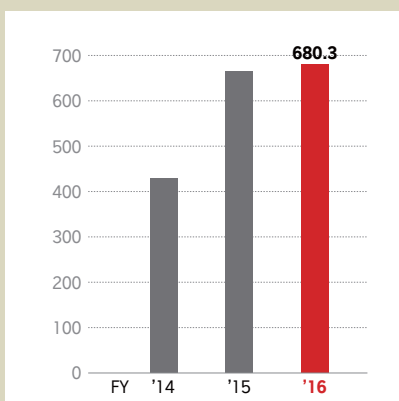
## Total Liabilities

(Billions of yen)



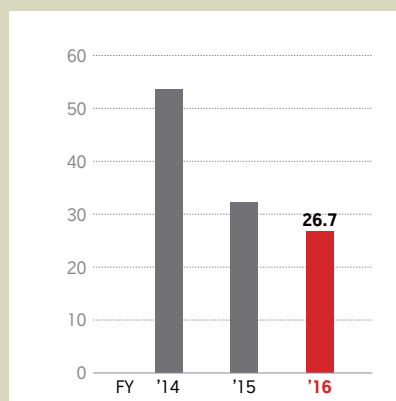
## Total Net Assets

(Billions of yen)



## Earnings per Share (basic)

(Yen)



## Return on Equity

(%)



## Preparing for Sustainable Growth

### Rakuten's Philosophy

## Contribute to society by creating value through innovation and entrepreneurship

Our corporate mission since our founding has been based on the empowerment of individuals and society through innovation and entrepreneurship. We contribute to innovation and the enrichment of society by helping as many people as possible to excel, while providing services that deliver high levels of satisfaction for both users and partner enterprises. Through these activities, we aim to maximize the corporate value and shareholder value of the Group and continue to be a Global Innovation Company.

### Social Contribution Activities (CSR Activities)

Through social contribution activities, Rakuten Group addresses social issues related to education, the environment, local communities, and disaster relief and humanitarian aid hand in hand with business partners, customers, government, NPOs, and other diverse stakeholders in the Rakuten network.

>>> <https://global.rakuten.com/corp/sustainability/>

### Diversity initiatives

Rakuten Group respects the individuality of employees and strives to create innovation that empowers society.

*FY2013 Diversity Management Selection 100 winner*



*Gold Level in the 2016 work with Pride PRIDE Index*



### Initiatives in 2016

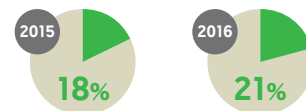
- Release of an internal diversity and inclusion homepage on the company intranet to start fostering awareness within the Group
- Revision of the definition of “spouse” in internal regulations to include same-sex partners and launch of services for LGBT users through Rakuten Card, Rakuten Life Insurance, Rakuten Edy, and other Rakuten services
- Preparation of an in-house childcare center and nursing room to assist employees in balancing work and parenting—with more than 95% of employees returning to work from maternity leave and childcare leave

>>> <https://global.rakuten.com/corp/about/diversity/>

### Employees from all over the world



### Women in management positions



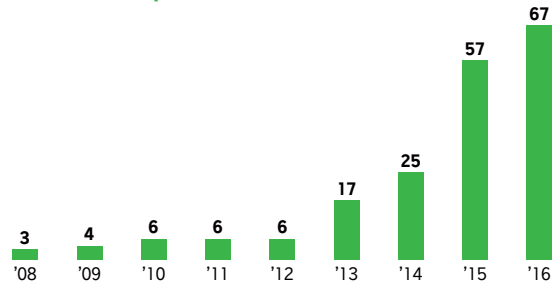
## Preparing for Sustainable Growth

### Rakuten IT School

The Rakuten IT School program, now in its tenth year, accepted a total of 3,441 students from 67 senior high schools nationwide in 2016. The students attended lectures on e-commerce given by employees of Rakuten and local Rakuten Ichiba and Rakuten Travel merchants and hoteliers.



School Participation



>>> <http://global.rakuten.com/corp/sustainability/it-school/>

### Rakuten's Forest

The mascot of the Rakuten Golden Eagles' character "Clutch" is modeled on the golden eagle, a bird of prey species today on the verge of extinction. One of the reasons is that the habitat of the golden eagle has decreased due to the change of lifestyle and interaction between humans and the forest. In 2014, Rakuten and numerous partners started the "Rakuten Forest" initiative to recover the biological habitat of the golden eagle. Today, 504.3 ha of forest (equivalent to 108 Tokyo Domes) are properly managed under this initiative. March 2017 marked the end of our 2-year commitment to contribute to reforestation of Indonesian forests on Kalimantan island. All of the trees that we planted are in good, healthy condition and ready to grow naturally in the forest.



©Rakuten Eagles



>>> <http://global.rakuten.com/corp/sustainability/forest/>

### Rakuten Selected for Global Sustainable Index

Selection for the first time as an index component for the 2016 Dow Jones Sustainability Asia/Pacific Index.

MEMBER OF

**Dow Jones  
Sustainability Indices**

In Collaboration with RobecoSAM

## Brand Enhancement

We continually engage in activities to strengthen and extend our brand, including ownership and partnerships with professional sports teams.

### Rakuten to become FC Barcelona's Main Global Partner

Rakuten has agreed to a four-year partnership with one of the world's most esteemed soccer clubs, FC Barcelona. The agreement currently positions Rakuten as FC Barcelona's Main Global Partner and its first-ever Global Innovation and Entertainment Partner from the 2017–18 through the 2020–21 seasons, with the Rakuten logo appearing on match-day jerseys.

This move brings together the collective power of our brands, like Viber, Wuaki, Ebates, Kobo and PriceMinister, to build an innovation framework that will deliver unique services to fans, members and players. Viber will also serve as FC Barcelona's Official Communications Channel.

 **Rakuten**



**FC BARCELONA OFFICIAL  
INNOVATION & ENTERTAINMENT PARTNER**



President of FC Barcelona, Josep Maria Bartomeu and H. Mikitani, Chairman and CEO, Rakuten, Inc.



>>> <https://rakuten.today/mickeysvoice/rakuten-fc-barcelona-global-partner.html>

### Most Powerful Web Brand in Japan

Rakuten Ichiba was selected as Japan's leading web brand in Nikkei BP Consulting's Web Brand Survey in 2016—Autumn/Winter.

2016	2015	Site Name	Score
1	3	<b>Rakuten Ichiba</b>	121.7
2	1	Yahoo Japan	120.1
3	2	Amazon.co.jp	110.6
4	4	Google	102.2

## Board of Directors, Executive Vice Presidents, Managing Executive Officers and Company Auditors

(As of August 1, 2017)



**Hiroshi Mikitani**  
Representative Director,  
President, Chairman and CEO



**Masayuki Hosaka**  
Representative Director and  
Vice Chairman



**Yoshihisa Yamada**  
Executive Vice President



**Yasufumi Hirai**  
Executive Vice President



**Kentaro Hyakuno**  
Executive Vice President



**Makoto Arima**  
Executive Vice President



**Kazunori Takeda**  
Managing Executive Officer



**Yuji Kusunoki**  
Managing Executive Officer



**Hiroyuki Nagai**  
Managing Executive Officer



**Hiroshi Takasawa**  
Managing Executive Officer



**Naho Kono**  
Managing Executive Officer



**Kenji Hirose**  
Managing Executive Officer



**Akio Sugihara**  
Managing Executive Officer



**Koji Ando**  
Managing Executive Officer



**Terje Marthinussen**  
Managing Executive Officer



**Masatada Kobayashi**  
Managing Executive Officer



**Charles B. Baxter**  
Director



**Takahide Uchida**  
Company Auditor (Full-time)\*2



**Yoshiaki Senoo**  
Company Auditor \*2



**Takeo Hirata**  
Company Auditor \*1,\*2



**Katsuyuki Yamaguchi**  
Company Auditor \*2






\*1: Independent Director specified by the regulations of Tokyo Stock Exchange, Inc.

\*2: Outside auditor stipulated under Corporate Law of Japan.



## Outside Directors

(As of April 1, 2017)

	Year Appointed	Positions Held	Area of Expertise
 <p><b>Ken Kutaragi</b> Director *1,*2</p>	2010	<p>Former CEO and Honorary Chairman of Sony Computer Entertainment Inc.*</p> <p>*Currently Sony Interactive Entertainment Inc.</p>	<p><b>Entertainment and Technology:</b> Mr. Kutaragi has provided Rakuten with management-related suggestions and insights based on his specialized knowledge of the entertainment business and technology, as well as his wide-ranging corporate management experience. He has served as a director for seven years.</p>
 <p><b>Joshua G. James</b> Director*1</p>	2016	<p>Founder and CEO of Domo, Inc.</p>	<p><b>Internet Technology:</b> Mr. James was appointed for his management insight and suggestions based on specialized knowledge of internet services and extensive experience guiding Internet service business in North America. He has served as an outside director for one year.</p>
 <p><b>Takashi Mitachi</b> Director *1,*2</p>	2016	<p>Board Member of Japan Association for the World Food Programme, Vice Chairman of Japan Association of Corporate Executives and Senior Partner &amp; Managing Director of The Boston Consulting Group</p>	<p><b>Management Consulting:</b> Mr. Mitachi was appointed in anticipation of his advice and comments based on expertise as a management consultant and for his extensive corporate management experience. He has served as a director for one year.</p>
 <p><b>Jun Murai</b> Director *1,*2</p>	2012	<p>Dean of Faculty of Environment and Information Studies of Keio University</p>	<p><b>Internet Technology:</b> Mr. Murai has given Rakuten management-related recommendations based on his knowledge and experience as an academic expert on internet technology. He has served as a director for five years.</p>
 <p><b>Youngme Moon</b> Director *1,*2</p>	2015	<p>Senior Associate Dean of Strategy and Innovation and Donald K. David Professor of Harvard Business School</p>	<p><b>Business Strategy:</b> Ms. Moon has provided advice and opinions on the business operations of Rakuten from her viewpoint as an academic expert on business administration. She has served as a director for two years.</p>

\*1: Outside director stipulated under Corporate Law of Japan

\*2: Independent director specified by the regulations of Tokyo Stock Exchange, Inc.

## Corporate Information

(As of December 31, 2016)

### Corporate Overview

<b>Name</b>	Rakuten, Inc.
<b>Head Office Location</b>	Rakuten Crimson House, 1-14-1 Tamagawa, Setagaya-ku, Tokyo, 158-0094, Japan TEL. +81-50-5581-6910
<b>Representative</b>	Chairman, President and CEO Hiroshi Mikitani
<b>Founded</b>	Feb. 7, 1997
<b>Rakuten Ichiba Service Launched</b>	May 1, 1997
<b>IPO</b>	Apr. 19, 2000
<b>Capital</b>	204,562 million yen
<b>Employees</b>	Non-consolidated: 5,549 Consolidated: 14,134

### Stock Information

<b>Company Name</b>	Rakuten, Inc.
<b>Stock Code</b>	4755 (Tokyo Stock Exchange 1st Section)
<b>Fiscal Year</b>	January 1 to December 31
<b>Annual General Shareholders' Meeting</b>	March
<b>Shareholder Record Date</b>	December 31
<b>Number of Shares Constituting One Trading Unit</b>	100 Shares
<b>Administrator of Shareholder Registry</b>	Sumitomo Mitsui Trust Bank, Limited

### Origins of the Name Rakuten

Rakuten Ichiba is named after Rakuichi-Rakuza, the first free and open marketplace in Japan, opened in the 16th century.

When used as a verb, raku is written with a Chinese character meaning to enjoy oneself (楽). The same character is used in the word "Rakuten," which means "optimism" or "positive spirit." The name Rakuten Ichiba literally means a "market of positive spirit," where shopping is entertainment. These words symbolize the driven, forward-looking nature of our business. That is why we named our company Rakuten, Inc.

### Cautionary Statement

In this report, unless indicated otherwise, references to "Rakuten," "Rakuten Group," "we," "our," and "us" are to Rakuten, Inc. and its consolidated subsidiaries and consolidated affiliates. Statements regarding current plans, strategies, beliefs and other statements that are not historical facts of the Rakuten Group are forward-looking statements.

Such forward-looking statements are based on management's assumptions and beliefs in light of information currently available, and it should be noted that risks and unforeseen factors could cause actual results to differ significantly from those discussed in the report. We do not intend to update these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable laws.

"Rakuten," and  Rakuten are registered trademarks of Rakuten, Inc. in Japan.

## Additional information from consolidated Financial Statements

### Corporate History

See Consolidated Financial Statements

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### Summary of Results

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### Business Risk and Other Risk Factors

See Consolidated Financial Statements

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### Analysis of Consolidated Business Results, Financial Position and Cash Flows

See Consolidated Financial Statements

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### Corporate Governance

See Consolidated Financial Statements

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### Consolidated Financial Statements

See Consolidated Financial Statements

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### Major Subsidiaries

See Consolidated Financial Statements

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# **Consolidated Financial Statements**

Fiscal Year Ended December 31, 2016

Rakuten, Inc. and its Consolidated Subsidiaries



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## Part I Information on the Company

### I. Overview of the Company

#### 1. Key Financial Data and Trends

##### (1) Consolidated Financial Data, etc.

(Millions of Yen, unless stated otherwise)

Fiscal year	16th	16th	17th	18th	19th	20th
	JGAAP	IFRS	IFRS	IFRS	IFRS	IFRS
Year end	Dec. 2012	Dec. 2012	Dec. 2013	Dec. 2014	Dec. 2015	Dec. 2016
Net sales or revenue	443,474	400,444	518,568	598,565	713,555	781,916
Ordinary profit	71,514	—	—	—	—	—
Income before income tax	—	49,106	88,610	104,245	91,987	73,923
Net income	19,413	21,136	43,481	71,103	44,280	38,001
Comprehensive income	33,586	31,574	67,881	123,822	51,116	22,030
Net assets or equity attributable to owners of the Company	262,451	235,942	300,063	421,562	662,044	680,247
Total assets	2,108,409	2,287,634	3,209,808	3,680,695	4,269,953	4,604,672
Net assets per share or equity attributable to owners of the Company per share Yen	193.73	179.48	227.70	318.74	464.80	476.89
(Basic) net income / earnings per share Yen	14.77	15.59	32.60	53.47	32.33	26.65
Diluted net income/earnings per share Yen	14.74	15.56	32.41	53.15	32.09	26.44
Equity ratio or equity attributable to owners of the Company ratio (%)	12.1	10.3	9.3	11.5	15.5	14.8
Return on equity or net income to equity attributable to owners of the Company ratio (%)	8.1	9.2	16.0	19.6	8.2	5.7
Price earnings ratio (Times)	45.6	43.2	48.0	31.5	43.4	43.0
Net cash from/ (used in) operating activities	19,508	104,687	1,485	111,860	78,245	30,700
Net cash from/ (used in) investing activities	136,548	67,440	30,584	(261,085)	(224,078)	(26,841)
Net cash from/ (used in) financing activities	(47,099)	(56,820)	75,252	189,512	221,831	45,200
Cash and cash equivalents at end of the year	260,656	270,114	384,008	428,635	501,029	548,269
Employees (Persons)	9,311	9,311	10,867	11,723	12,981	14,134

(Notes) 1 Consolidated financial statements for the 16th fiscal year and thereafter have been prepared in accordance with the International Financial Reporting Standards (hereinafter referred to as the “IFRS”).

2 Amounts under ¥1 million are rounded off to the nearest million for the 16th IFRS fiscal year and thereafter.

3 Consumption tax is not included in Net sales or revenue.

- 4 Average number of shares during the fiscal year is calculated on a daily basis.
- 5 The Company conducted a share split on July 1, 2012. However, net assets per share or equity attributable to owners of the Company per share, net income (loss) per share, and Diluted Net income per share are calculated on the assumption that the Company conducted share split at the beginning of the 16th fiscal year.
- 6 Number of Employees does not include those serving concurrently as employees and Directors, temporary staff and part-time employees.

## (2) Financial Data, etc. of the Company submitting Annual Securities report

(Millions of Yen, unless stated otherwise)

Fiscal year	16th JGAAP	17th JGAAP	18th JGAAP	19th JGAAP	20th JGAAP
Year end	Dec. 2012	Dec. 2013	Dec. 2014	Dec. 2015	Dec. 2016
Net sales	163,708	189,041	235,443	268,214	305,437
Ordinary profit	66,883	71,915	82,881	77,346	61,789
Net income (loss)	32,923	32,162	65,173	(13,553)	38,839
Common stock	108,255	109,530	111,601	203,587	204,562
Total number of shares issued (Share)	1,320,626,600	1,323,863,100	1,328,603,400	1,430,373,900	1,432,422,600
Net assets	302,869	338,795	398,626	567,796	607,152
Total assets	538,309	635,301	866,457	1,050,534	1,135,909
Net assets per share Yen	229.28	255.42	298.90	393.60	417.61
Dividend per share Yen	3.00	4.00	4.50	4.50	4.50
(Interim dividend per share) Yen	(—)	(—)	(—)	(—)	(—)
Net income (loss) per share Yen	25.05	24.43	49.34	(9.86)	27.24
Diluted net income per share Yen	24.99	24.30	49.05	—	27.02
Equity ratio (%)	56.0	53.0	45.6	53.4	52.4
Return on equity (%)	11.5	9.6	17.8	(2.8)	6.7
Price earnings ratio (Times)	26.9	64.0	34.1	—	42.1
Dividend payout ratio (%)	12.0	16.4	9.1	—	16.5
Number of employees (Persons)	3,498	3,762	4,527	5,138	5,549

- (Notes)
- 1 Consumption tax is not included in Net sales.
  - 2 Average number of shares during the year is calculated on a daily basis.
  - 3 Diluted net income per share is not stated for the 19th fiscal year, as a net loss per share was reported in the fiscal year.
  - 4 The Company conducted a share split on July 1, 2012. However, Net assets per share, Net income (loss) per share, and Diluted net income per share are calculated on the assumption that the Company conducted share split at the beginning of the 16th fiscal year.
  - 5 Price earnings ratio and dividend payout ratio are not stated for the 19th fiscal year, as a net loss per share is reported in the fiscal year.
  - 6 Dividend of ¥4 per share for the 17th fiscal year includes a ¥1 commemorative dividend for listing on the First Section of the Tokyo Stock Exchange.
  - 7 Number of employees does not include those serving concurrently as employees and Directors, employees seconded to other group companies, temporary staff and part-time employees.



## 2. Corporate History

Period		Overview
1997	Feb	MDM Co., Ltd. is founded to develop an online commerce server and operate Internet shopping mall, Rakuten Ichiba, with capital of ¥10 million at 1-6-7 Atago, Minato-ku, Tokyo.
	May	Internet shopping mall, Rakuten Ichiba commences operations.
1998	Aug	Head office is transferred to 2-8-16 Yutenji, Meguro-ku, Tokyo.
1999	Jun	MDM Co., Ltd. is renamed as Rakuten, Inc.
2000	Apr	Rakuten, Inc. is listed with the Japan Securities Dealers Association.
	May	Head office is transferred to 2-6-20 Nakameguro, Meguro-ku, Tokyo.
2001	Mar	Commencement of Rakuten Travel services.
2002	Nov	Introduction of Rakuten Super Points program.
2003	Sep	Rakuten, Inc. acquires 100% of shares in MyTrip.net, an accommodation booking site operator.
	Oct	Head office is transferred to 6-10-1 Roppongi, Minato-ku, Tokyo.
	Nov	Rakuten, Inc. consolidates DLJdirect SFG Securities (currently Rakuten Securities, Inc.) as a subsidiary.
2004	Oct	Rakuten Baseball, Inc. is founded.
	Nov	Nippon Professional Baseball approves new entry of Tohoku Rakuten Golden Eagles.
	Dec	Rakuten, Inc. goes public on the Jasadq Securities Exchange Inc. (currently Tokyo Securities Exchange JASDAQ (standard)).
2005	Jun	Rakuten, Inc. consolidates Kokunai Shinpan Co., Ltd. (former Rakuten KC Co., Ltd.) as a subsidiary.
	Sep	Rakuten, Inc. acquires 100% of shares in LinkShare Corporation (currently RAKUTEN MARKETING LLC) through Rakuten USA, Inc.
2007	Aug	Rakuten, Inc. consolidates IP telephony business Fusion Communications (currently Rakuten Communications Corp.) which as a subsidiary.
2008	Apr	Head office is transferred to 4-12-3 Higashishinagawa, Shinagawa-ku, Tokyo.
2009	Feb	Rakuten, Inc. converts preferred stocks of eBank Corporation (currently Rakuten Bank, Ltd.) into common stocks, and consolidates the company as a subsidiary.
2010	Jan	Rakuten, Inc. consolidates bitWallet, Inc., (currently Rakuten Edy, Inc.) as a subsidiary.
	Jul	Buy.com Inc. (currently RAKUTEN COMMERCE LLC), an e-commerce site operator in the U.S., becomes a wholly owned subsidiary of Rakuten, Inc. through Rakuten USA, Inc.
	Jul	PRICEMINISTER S.A. (currently PRICEMINISTER S.A.S.), an e-commerce site operator in France, becomes a wholly owned subsidiary through Rakuten Europe S.a.r.l.
2011	Aug	Rakuten Card-related business Rakuten KC Co., Ltd., is transferred to Rakuten Credit Co., Ltd. (currently Rakuten Card Co., Ltd.) in an absorption-type split and Rakuten, Inc. sells its holding of Rakuten KC's shares, etc.
2012	Jan	Rakuten, Inc. acquires 100% of shares in Kobo Inc. (currently Rakuten Kobo Inc.) which offers e-book services worldwide.
	May	Rakuten, Inc. acquires shares in Kenko.com, Inc. through a third party allocation and makes the company a subsidiary.
	Jun	Rakuten, Inc. acquires 100% of shares in Wuaki. TV, S.L. a provider of video streaming services in Spain.
	Oct	Rakuten, Inc. acquires additional shares in AIRIO Life Insurance Co., Ltd. (currently Rakuten Life Insurance Co., Ltd.), an associate accounted for using the equity

Period		Overview
		method, and makes the company a subsidiary.
2013	Sep	Rakuten, Inc. acquires 100% of shares in VIKI, Inc. a provider of video streaming services worldwide.
	Nov	Tohoku Rakuten Golden Eagles win their first Nippon Series championship.
	Dec	Rakuten, Inc. changes its stock marketing listing to the First Section of the Tokyo Stock Exchange.
2014	Mar	Rakuten, Inc. acquires 100% of shares in VIBER MEDIA LTD. which operates mobile messaging and VoIP services worldwide.
	Oct	Rakuten, Inc. acquires 100% of shares in Ebates Inc. which operates a leading membership-based online cash-back site in the U.S.
	Oct	Rakuten, Inc. stages a full scale entry into the mobile phone business and begins provision of services through Rakuten Mobile.
2015	Apr	Rakuten, Inc. acquires 100% of shares in OverDrive Holdings, Inc. a provider of e-book distribution services for libraries.
	Aug	Head office is transferred to 1-14-1 Tamagawa, Setagaya-ku Tokyo.
2016	Nov	Rakuten, Inc. enters into a basic agreement with FC Barcelona to become the Global Main Partner and Global Innovation & Entertainment Partner, starting from the 2017-2018 season.

### 3. Description of Business

The Group Companies are reported as two segments, "Internet Services" and "FinTech."

Each of these segments has available financial information, which is separate from the Group Companies' business units and is individually subject to review by the Board of Directors regularly, in order to make decisions about resources to be allocated to the segment and assess its performance.

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

The "FinTech" segment engages in business providing services over the Internet such as banking and securities, credit cards, life insurance and electronic money.

The Group Companies changed their classification of reportable segments from the fiscal year ended December 31, 2016. For details, please refer to "V. Financial Information, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements, Notes to the Consolidated Financial Statements, 4. Segment Information, (1) General Information."

The following segments are classified in the same way as stated in the "Segment Information" note of the consolidated financial statements.

Descriptions of significant services provided by the Group Companies and the main entities involved in such services are as follows.

#### Internet Services

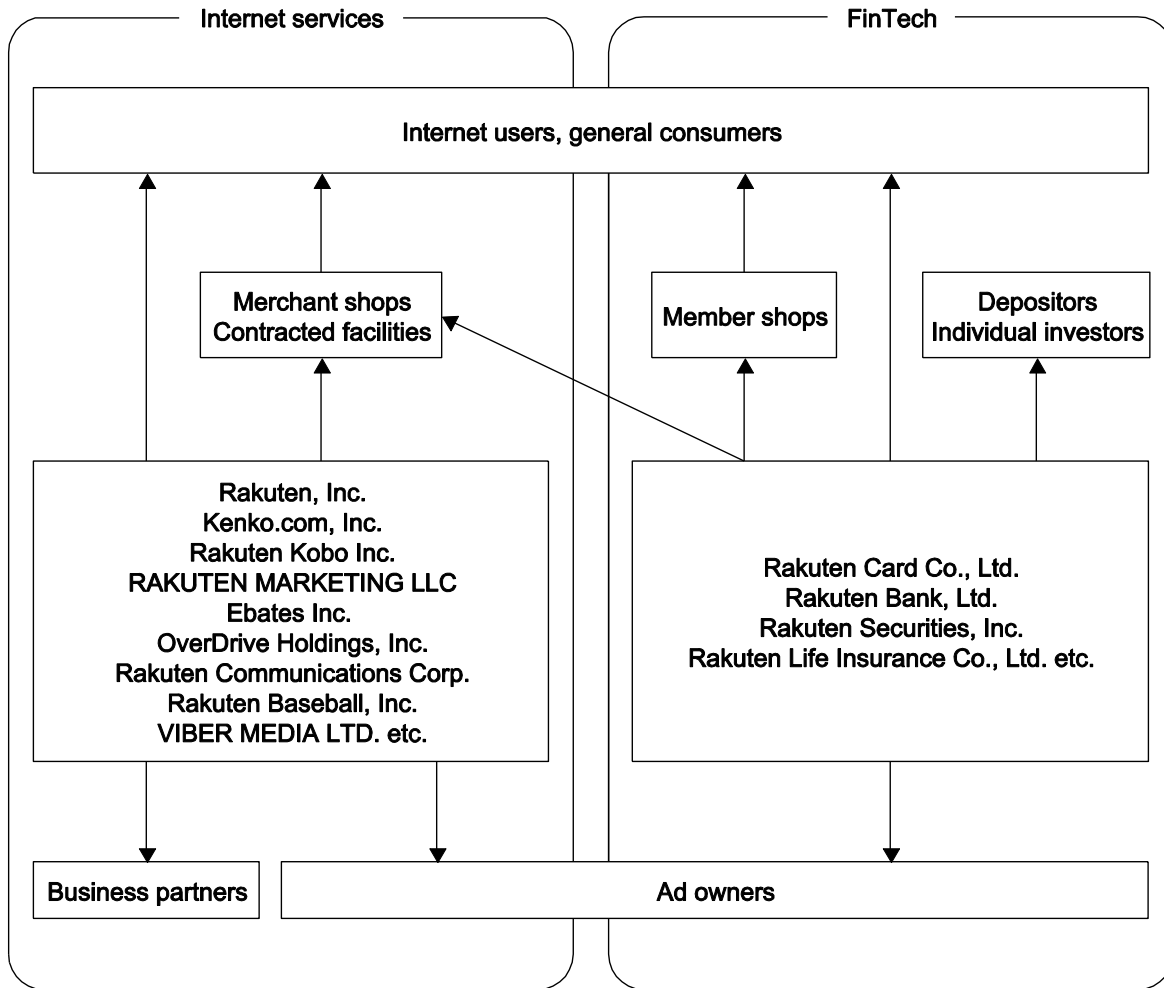
Significant services provided	Main entities involved in such services
Internet shopping mall service, Rakuten Ichiba	Rakuten, Inc.
Online book store, Rakuten Books	Rakuten, Inc.
Online golf course reservation service, Rakuten GORA	Rakuten, Inc.
A comprehensive Internet travel site, Rakuten Travel	Rakuten, Inc.
MVNO services, Rakuten Mobile and related services	Rakuten, Inc.
Online sales of health-related products	Kenko.com, Inc.
e-book services	Rakuten Kobo Inc.
Performance marketing services	RAKUTEN MARKETING LLC
Online cashback site, Ebates	Ebates Inc.
Contents distribution services, including e-books and audio books for libraries and educational institutions	OverDrive Holdings, Inc.
Cloud and IP telephone services	Rakuten Communications Corp.
Professional baseball team, Tohoku Rakuten Golden Eagles	Rakuten Baseball, Inc.
Mobile messaging and VoIP services	VIBER MEDIA LTD.

#### FinTech

Significant services provided	Main entities involved in such services
Issuance of credit card, Rakuten Card and provision of related services	Rakuten Card Co., Ltd.
Internet banking service	Rakuten Bank, Ltd.
Online securities trading service	Rakuten Securities, Inc.
Life insurance business	Rakuten Life Insurance Co., Ltd.

[Business Organization Chart]

The Group Companies' businesses described above can be illustrated in the following business organization chart.



#### 4. Information on Subsidiaries and Associates

Company name	Location	Paid in capital	Principal business	Ratio of voting rights holding (held)	Relationship	Note
Consolidated Subsidiaries						
Kenko.com, Inc.	Chuo-ku, Fukuoka	Fukuoka-shi, 100 million yen	Internet Services	100.0	Involving provision loans	of
Rakuten Kobo Inc.	Canada	858 million Canadian dollars	Internet Services	100.0		Note 5
RAKUTEN MARKETING LLC	U.S.	1 U.S. dollar	Internet Services	100.0 (100.0)	Involving interlocking directorates	
Ebates Inc.	U.S.	0.1 U.S. dollar	Internet Services	100.0 (100.0)		
OverDrive Holdings, Inc.	U.S.	1 U.S. dollar	Internet Services	100.0 (100.0)		
Rakuten Corp.	Communications Setagaya-ku, Tokyo	2,026 million yen	Internet Services	100.0		
Rakuten Baseball, Inc.	Miyagino-ku, Miyagi	Sendai-shi, 100 million yen	Internet Services	100.0	Involving interlocking directorates Involving provision loans	of
VIBER MEDIA LTD.	Grand Duchy of Luxembourg	71 thousand U.S. dollar	Internet Services	100.0 (100.0)		
Rakuten Card Co., Ltd.	Setagaya-ku, Tokyo	19,324 million yen	FinTech	100.0	Involving interlocking directorates	Note 6
Rakuten Bank, Ltd.	Setagaya-ku, Tokyo	25,954 million yen	FinTech	100.0	Involving interlocking directorates	Note 5
Rakuten Securities, Inc.	Setagaya-ku, Tokyo	7,496 million yen	FinTech	100.0	Involving interlocking directorates	
Rakuten Life Insurance Co., Ltd.	Setagaya-ku, Tokyo	2,500 million yen	FinTech	100.0	Involving interlocking directorates	
Associate Accounted for Using the Equity Method						
Rakuten ANA Travel Online Co., Ltd.	Setagaya-ku, Tokyo	90 million yen	Internet Services	50.0		

(Notes) 1 Names of business segments in the segment information are stated in the box of Principal business.

2 There are 135 consolidated subsidiaries other than those stated above.

3 There are 14 associates accounted for using the equity method.

4 Figures in brackets represent the percentage of indirect holdings included in Ratio of voting rights holding.

5 This company is a specified subsidiary.

6 Revenue from Rakuten Card Co., Ltd. (excluding the internal revenue recorded among consolidated companies) accounts for more than 10% in consolidated revenue.

Key data of income or loss

	(Millions of Yen)
	Rakuten Card Co., Ltd.
Revenue	139,252
Income before income tax	32,392
Net income	22,060
Total net assets	112,042
Total assets	1,209,047

## 5. Employees

### (1) Consolidated Companies

As of December 31, 2016	
Name of business segments	Number of employees
Internet Services	9,893
FinTech	2,751
Company-wide (common)	1,490
Total	14,134

(Notes) 1 Number of employees represents the number of persons engaged, excluding those serving concurrently as employees and Directors, temporary staff and part-time employees.

2 Company-wide (common) figure represents the number of employees of the development and administrative departments that cannot be classified in a specific segment.

### (2) Company Submitting Financial Reports

As of December 31, 2016			
Number of employees	Average age	Average length of service	Average annual salary (Yen)
5,549	33.7	4.6	6,892,935

Name of business segments	Number of employees
Internet Services	4,142
FinTech	95
Company-wide (common)	1,312
Total	5,549

(Notes) 1 Number of employees represents the number of persons engaged, excluding those serving concurrently as employees and Directors, employees seconded to other companies, temporary staff and part-time employees.

2 Average annual salary includes bonus and extra wage.

3 Company-wide (common) figure represents the number of employees of the development and administrative departments that cannot be classified in a specific segment.

### (3) Status of Labor Union

Although no labor union is formed in the Company, there are labor unions in certain consolidated subsidiaries. The relationship between labor and management is favorable and there are no special matters to be noted.

## II. Business Overview

### 1. Summary of Results

#### (1) Business Results

The Rakuten Group discloses consolidated business results in terms of both its internal measures which 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 prescribed by the Rakuten Group. The management believes that the disclosure of Non-GAAP financial measures facilitates comparison between the Rakuten Group and peer companies in the same industry or comparison of its business results with those of the prior fiscal years by stakeholders, and can provide useful information in understanding the underlying business results of the Rakuten Group and its future outlook. Unusual items refer to one-off items that Rakuten believes shall be excluded for the purpose of preparing future outlook based on certain rules. Other adjustment items are those that tend to differ depending on the accounting standards applied, therefore less comparable between companies, such as stock based compensation expense 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.

#### 1) Business Results for the Fiscal Year Ended December 31, 2016 (Non-GAAP basis)

The world economy during the fiscal year ended December 31, 2016, continued to stay on a gradual recovery track, although attention must be paid to factors including the normalization of U.S. monetary policy. The Japanese economy also saw a gradual recovery trend amid continuing improvement in the wage and employment environment.

Under such an environment, the Rakuten Group has implemented strategic actions in line with its medium-term strategy “Vision 2020” announced in February 2016. In domestic e-commerce services, the mainstay of Internet Services, the Rakuten Group is making every effort towards further revenue growth by implementing various measures. These include programs with the aim of improving customer satisfaction, aggressive sales activities and strategies to enhance services for smart devices (smartphones and tablet devices) and to open up the Rakuten Ecosystem. Results are on track for improvement in overseas internet services, due to contributions from the steady growth in U.S. subsidiary Ebates Inc. (“Ebates”) and other factors. In the FinTech segment, further expansion of the membership base for the Rakuten Card brought in more commission income, while there was also solid growth in banking services. These contributed to a solid increase in both revenue and profit, even as the securities services suffered from a slump in the stock market.

As a result, the Rakuten Group achieved revenue of ¥781,916 million, up 9.6% year-on-year, for the fiscal year ended December 31, 2016. However, mainly affected by increased expenses due to aggressive sales activities, the absence of unrealized gains on stocks recorded during the previous fiscal year, and a slump in the stock market, Non-GAAP operating income fell by 21.7% year-on-year to ¥119,080 million.

(Non-GAAP basis)

(Millions of Yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Amount Change YoY	% Change YoY
Revenue	713,555	781,916	68,361	9.6%
Non-GAAP operating income	152,153	119,080	(33,073)	(21.7)%

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

For the fiscal year ended December 31, 2016, amortization of intangible assets of ¥7,789 million and stock-based compensation expenses of ¥7,344 million were excluded from Non-GAAP operating income. Impairment of goodwill, intangible assets and others of ¥25,970 million was recognized as a one-off item. One-off items of ¥43,054 million in the previous fiscal year include the impairment of goodwill and intangible assets and others.

(Millions of Yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Amount Change YoY
Non-GAAP operating income	152,153	119,080	(33,073)
Amortization of intangible assets	(8,322)	(7,789)	533
Stock-based compensation expenses	(6,088)	(7,344)	(1,256)
One-off items	(43,054)	(25,970)	17,084
IFRS operating income	94,689	77,977	(16,712)

## 3) Business Results for the Fiscal Year Ended December 31, 2016 (IFRS basis)

The Rakuten Group recorded revenue of ¥781,916 million, up 9.6% year-on-year, operating income of ¥77,977 million, down 17.6% year-on-year, and net income attributable to owners of the parent company of ¥37,995 million, down 14.5% year-on-year, for the fiscal year ended December 31, 2016.

(IFRS basis)

(Millions of Yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Amount Change YoY	% Change YoY
Revenue	713,555	781,916	68,361	9.6%
IFRS operating income	94,689	77,977	(16,712)	(17.6)%
Net income attributable to owners of the parent company	44,436	37,995	(6,441)	(14.5)%

## 4) Segment Information

Business results for each segment are as follows. In terms of the IFRS management approach, segment profit or loss is presented on a Non-GAAP operating income basis. From the three months ended September 30, 2016, the Rakuten Group reviewed its internal reporting control framework following the introduction of an internal Company System. Accordingly, businesses that had previously comprised the “Others” segment were integrated into the businesses that comprise the “Internet Services” segment. As a result, the previous three reportable segments were changed to two reportable segments: “Internet Services” and “FinTech.”

Segment information for the previous fiscal year has been prepared based on the classification method after the change. For details, please refer to “V. Financial Information, 1.



Consolidated Financial Statements, (1) Consolidated Financial Statements, Notes to the Consolidated Financial Statements, 4. Segment Information, (1) General Information.”

(Internet Services)

In the Internet Services segment for the fiscal year ended December 31, 2016, the Rakuten Group actively worked on various initiatives. It has conducted aggressive sales activities with the aim of winning new users and developing a long-term, loyal customer base, initiatives targeting greater customer satisfaction, strengthening services for smart devices and opening up the Rakuten Ecosystem. Results are on track for improvement in overseas internet services, thanks in part to the steady growth of Ebates. Rakuten Mobile, which provides MVNO (Mobile Virtual Network Operator) services, substantially increased revenue thanks to its full-scale aggressive sales activities commenced during the three months ended June 30, 2015.

As a result, revenue for the Internet Services segment rose to ¥560,555 million, a 13.7% year-on-year increase. However, mainly affected by increased expenses due to aggressive sales activities and the absence of unrealized gains on stocks recorded during the previous fiscal year, segment profit stood at ¥55,568 million, a 38.9% decrease year-on-year.

(Millions of Yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Amount Change YoY	% Change YoY
Segment Revenue	492,836	560,555	67,719	13.7%
Segment Profit	90,909	55,568	(35,341)	(38.9)%

(FinTech)

In the FinTech segment for the fiscal year ended December 31, 2016, shopping transaction value and revolving balances in credit card related services increased due to growth in Rakuten Card membership, resulting in a steady rise in revenue and profits. In banking services, profits continued to grow despite the backdrop of a negative interest rate policy due to an increase in interest income from loans, with expanding loan balances and improvements in cost efficiency. In securities services, the negative impact of volatile market conditions markedly weighed down its revenue and profits from their levels in the previous fiscal year.

As a result, the FinTech segment recorded ¥296,066 million in revenue, a 7.6% year-on-year increase, while segment profit stood at ¥65,587 million, a 2.6% increase year-on-year.

(Millions of Yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Amount Change YoY	% Change YoY
Segment Revenue	275,136	296,066	20,930	7.6%
Segment Profit	63,899	65,587	1,688	2.6%

(2) Cash Flows

Cash and cash equivalents at December 31, 2016 was ¥548,269 million, an increase of ¥47,240 million from the end of the previous fiscal year. Among these, deposits with the Bank of Japan for banking business was ¥376,879 million, an increase of ¥28,805 million from the end of the previous fiscal year. Cash flow conditions and their major factors for the fiscal year ended December 31, 2016 are as follows.

(Net cash flows from operating activities)

Net cash flows from operating activities for the fiscal year ended December 31, 2016 resulted in a cash inflow of ¥30,700 million (compared with a cash inflow of ¥78,245 million for the previous fiscal year). Primary factors included a cash outflow of ¥180,741 million for an increase in loans

for credit card business and a cash outflow of ¥141,756 million in loans for banking business, which were offset by a cash inflow of ¥139,162 million from an increase in deposits for banking business, net proceeds of ¥59,983 million from fluctuations of financial assets and liabilities for securities business (a cash outflow of ¥11,725 million for increase in financial assets and a cash inflow of ¥71,708 million for increase in financial liabilities), and the recognition of ¥73,923 million for income before income tax and ¥44,257 million in depreciation and amortization.

(Net cash flows from investing activities)

Net cash flows from investing activities for the fiscal year ended December 31, 2016 resulted in a cash outflow of ¥26,841 million (compared with a cash outflow of ¥224,078 million for the previous fiscal year). Primary factors included net proceeds of ¥98,790 million for purchase and sales of investment securities for banking business (a cash outflow of ¥249,291 million for purchase of investment securities for banking business and a cash inflow of ¥348,081 million from sales and redemption of investment securities), which was offset by a cash outflow of ¥42,325 million for purchase of intangible assets, a cash outflow of ¥33,612 million for acquisition of subsidiaries, and net cash outflows of ¥32,361 million for purchase and sales of investment securities (a cash outflow of ¥53,213 million purchase of investment securities and a cash inflow of ¥20,852 million from 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, 2016 resulted in a cash inflow of ¥45,200 million (compared with a cash inflow of ¥221,831 million for the previous fiscal year). Primary factors included a cash outflow of ¥163,832 million for repayment of long-term debt, which was offset by a cash inflow of ¥212,100 million from long-term debt.

- (3) Difference between the main items of the consolidated financial statements prepared in accordance with IFRS, and the comparable items of the consolidated financial statements prepared in accordance with JGAAP.

For the year ended December 31, 2016

1) Revenue

Future financial costs, due to the points granted under the point programs to encourage repeated access and shopping by customers, are recorded as a provision for point card certificates as part of operating expenses in accordance with JGAAP, whereas in accordance with IFRS, such costs associated with the points are considered paid to customers and accordingly, based on IFRS 15 "Revenue from contracts with customers" are deducted from revenue at the time they are granted. Due to this difference, revenue in accordance with IFRS is approximately ¥48,851 million less than that in accordance with JGAAP.

For sales of books by the Group Companies, revenue is recorded and the associated cost of sales is presented on a gross basis in accordance with JGAAP. Since in accordance with IFRS such transactions are deemed to be conducted by the Group Companies as an agent of third parties and subject to accounting treatment in accordance with IFRS 15, revenue is presented on a net basis. Due to this difference such revenues are, in accordance with IFRS approximately ¥38,113 million less than those in accordance with JGAAP.

2) Operating income

Goodwill is amortized on a regular basis over a certain period of time in accordance with JGAAP, while in accordance with IFRS, goodwill is not subject to amortization but instead an impairment

test is required. Due to this difference, operating income in accordance with IFRS is approximately ¥17,839 million more than that in accordance with JGAAP.

## 2. Production, Order and Sales Status

### (1) Production Results

As the Group Companies provide various Internet-based services as their main line of business, with no activities classified as production, no information is presented in respect of the production result.

### (2) Order Results

As the Group Companies are not engaged in any make-to-order production, no information is presented in respect of order results.

### (3) Sales Results

Segment sales results in the current fiscal year are as follows.

Name of business segments	Revenue (Millions of Yen)	Year-on-year (%)
Internet Services	560,555	13.7
FinTech	296,066	7.6
Intercompany transactions, etc.	(74,705)	—
Total	781,916	9.6

(Note) Consumption tax is not included in the above amounts.

## 3. Challenges

As a company group that empowers individuals and society through innovation, our challenges are to respond flexibly to changes in the business environment, and build a framework for continuous growth. Additionally, through long-term continuous growth, we aim to maximize the corporate and shareholders' value of the Rakuten Group and continue to be a Global Innovation Company.

### (1) Management structure

The Rakuten Group ranks thorough corporate governance as our top challenge, and we are developing a number of initiatives to ensure good corporate governance.

The Company has supervises management through a Board of Company Auditors comprised exclusively of External Company Auditors. Additionally, in order to separate the supervisory and executive roles of management, the Company has adopted an Executive Officer System by which the Board has retained the responsibility for management decision-making and supervision, while Executive Officers have been made responsible for the executive functions.

The Company's Board of Directors, which includes the Outside Directors and External Company Auditors, are highly independent experts in a variety of fields and supervises the execution of duties from an objective perspective, enhancing the effectiveness of corporate governance by engaging in frank and multilateral discussions on management.

Since April 2016, we have been holding intensive quarterly meetings, consisting primarily of Directors and Company Auditors, where we discuss Rakuten Group management strategy and other matters, separately from the Board of Directors meetings. These meetings allow for discussions with a medium to long-term perspective that are not dominated by near-term challenges or the Board of Directors agenda items. We have also introduced an internal Company system to ensure agile business execution and clear accountability. In August 2016, we completely revised the Board of Directors deliberation agenda and valuation standards.

In addition, we make sure that the Rakuten Shugi (Rakuten principles) which defines the

corporate philosophy of the Rakuten Group together with its values and code of conduct, are assimilated by executives and employees in Japan and overseas as we enhance our business speed and quality.

Through such efforts, the Rakuten Group will continue to build a management structure with highly effective governance functions that enables swift management decisions.

## (2) Business strategy

The Rakuten Group's basic management strategy is to build a Rakuten Ecosystem, which provides services to users in Japan and globally, especially Rakuten members. With this Rakuten Ecosystem, we have created an environment in which members worldwide can continuously surf between multiple services, including e-commerce transactions, digital contents, and financial services. Our goal is to achieve synergistic benefits that include the maximization of the lifetime value of each member and minimization of customer acquisition cost.

In order to achieve this, we will proactively improve customer satisfaction for our existing lineup of services, run marketing programs to improve loyalty using Rakuten Super Points and big data, enhance our services for smart devices (smartphones and tablet devices), and aggressively implement a strategy to open up the Rakuten Ecosystem.

Additionally, in order to further increase the Rakuten brand on a global scale, we will become the Global Main Partner and Global Innovation & Entertainment Partner of the top-class Spanish soccer team FC Barcelona.

### 1) Internet services

In Internet Services, particularly e-commerce and travel, we will aim to create new markets together with our business partners, through various measures for improving customer satisfaction, strategies to open up the Rakuten Ecosystem and enhancing services for smart devices (smartphones and tablet devices), in addition to the utilization of big data. In telecommunications services including the messaging application developed by Viber as well as MVNO (Mobile Virtual Network Operator), we aim to expand the Rakuten Ecosystem membership base while further improving user friendliness. Furthermore, we seek to provide greater value to users through digital contents services such as e-book and video streaming services.

### 2) FinTech

We are pursuing even greater growth of financial services in such areas as credit cards, banking and securities through group synergies. In addition, we seek to offer users new value through the further integration of finance (Fin) and Internet technology (Tech).

### (3) Development of technology

We will aim to further strengthen the Rakuten Ecosystem and offer innovative services by promoting research and development related to analysis and application of data sets, including big data owned by the Rakuten Group, and technologies such as AI. We will also strengthen our development organization, including overseas development centers, with the aim of building a reputation for Rakuten as a company with unique, world-class technology.

#### 4. Business Risk and Other Risk Factors

Described below are the main aspects of the business activities and finances of the Group Companies that are considered to be potential risk factors or that may have influence on decisions made by investors. Having identified these risks, the policy of the Group Companies is to take steps to prevent occurrences or to take appropriate action in response to contingencies. This policy notwithstanding, the Group Companies' position is that decisions to invest in the Company's securities should be preceded by careful examination of relevant information, including information provided elsewhere.

Unless otherwise stated, all forward-looking statements herein are based on judgments by the Group Companies as of the date of filing of the Yukashoken-Hokokusho to the Financial Services Agency of the Japanese government. They are subject to uncertainty and could differ from actual results.

##### 1 Risks Relating to Business Environment

###### (1) Growth Potential of the Internet Industry

The Group Companies are primarily active in the Internet sector. They provide a variety of services, both domestic and overseas.

Given the worldwide growth in Internet users, the expansion of business-to-consumer e-commerce and other factors, we anticipate continuing growth trends in both gross transaction value and the number of unique buyers\* on the Group Companies websites. However, the Group Companies' financial performance and financial position could be affected if the growth of the Internet sector as a whole and the e-commerce market decelerates because of external factors, such as regulatory systems that limit Internet use, growing awareness of information security issues, especially in relation to personal information, or because of economic trends, excessive competition or other factors, and if as a result of these factors gross transaction value on the Group Companies' websites fails to expand as expected. Sales from Internet advertising and similar sources makeup a certain share of the Group Companies' net sales. Since the advertising market is highly likely to be affected by economic trends, the Group Companies' financial performance and financial position could be affected if there is a downturn in business confidence.

\* Number of unique buyers: The total number of buyers who purchase items at least once on Rakuten Ichiba during a specified period.

###### (2) Competition

As the number of Internet users increases, many companies are moving into Internet-related services across a wide spectrum of product categories and service formats. In addition to its Internet-related service operations, the Group Companies also face competition from numerous companies in its other areas of service.

The Group Companies aim to expand their services by continuously enhancing their response to customer needs. However, it is possible that these initiatives will fail to yield the anticipated benefits, or that the revenues of the Group Companies will fall because of changes in the competitive environment, such as the emergence of a competitor with revolutionary services and intensifying competition. There is also a possibility that the Group Companies will be forced to increase their capital investment and advertising expenditure. Such situations could have a serious impact on the business activities and financial performance and financial position of the Group Companies.

###### (3) Technological Changes in the Industry

The Group Companies are expanding their services in the Internet field, where progress and changes in technology are particularly pronounced and new services and products are

introduced with high frequency. It is necessary for the Group Companies to respond swiftly to such changes. Should the Group Companies' response be slow for some reason, there is a risk that our services could be seen as obsolete and our competitiveness deteriorate. Furthermore, even if we respond appropriately, we may incur increased expenses associated with upgrading existing systems and undertaking new development. These market trends and our responses may therefore have an impact on the financial performance of the Group Companies. In addition, technology may be developed that damages the operation of the Group Companies. If this technology becomes widespread, it may also have an impact on the business activities and financial performance and financial position of the Group Companies.

## 2 Risks Relating to International Business Expansion

Global expansion is one of the Group Companies' key strategies, and we are dynamically extending our existing business model into other countries. For example, we are extending our various services including financial services to many regions including the Americas, Europe and Asia. The Group Companies will continue to expand their overseas service and R&D sites. We will also work to improve and expand our international services while strengthening collaboration among our services in different countries. The Group Companies will also gradually expand cross-border services that allow users in Japan or overseas to purchase products and services from each other.

However, development of global services entails a variety of potential risks, including differences in languages, geographical factors, legal and taxation systems, supervision by regulatory authorities including autonomous regulatory bodies, economic and political instability, communication environment, and differing commercial practices. There are further risks that competition with rival companies that are competitive in specific countries or regions or are globally competitive, will intensify and that sudden changes in the regulations of foreign governments and international organizations will occur. The business activities and financial performance of the Group Companies could be affected if these risks are not handled properly.

In its international expansion, when setting up services, the Group Companies are likely to incur costs including costs for setting up corporations in other countries, recruitment costs, system development costs, and for existing services, costs for making strategic changes in business models. Group profits may temporarily come under pressure from these costs, and it will take time before new operations start to generate stable sales. The necessary time to recover this investment and the impossibility of recovery could have adverse effects on the financial performance and financial position of the Group Companies.

## 3 Risks Relating to Business Expansion and Development

### (1) Promoting the Integration of the Rakuten Brand

To further raise its gross transaction value, the Group Companies are promoting the integration of their various service brands to the Rakuten brand, and integrating their member IDs by unifying membership databases and developing a common points program. Changes to brand names and member IDs could lead to loss of loyalty among existing members or cause them to withdraw from member organizations. If the above measures fail to produce the anticipated benefits, the financial performance and financial position of the Group Companies could be affected.

### (2) M&A

The Group Companies actively engage in merger and acquisition (M&A) activities and the establishment of joint ventures, both in Japan and overseas. Our aim is to move into overseas markets, gain new users, develop new services, expand our existing services and acquire related technologies. These activities are regarded as important management strategies.

When acquiring a company, the Group Companies seek to avoid various risks as much as possible by conducting detailed due diligence concerning the financial position, contractual relationships and other aspects of the potential acquisition. However, it is not always possible to carry out due diligence exhaustively because of the circumstances surrounding individual acquisitions, such as time restrictions, and it is possible that contingent or unrecognized liabilities will come to light after an acquisition. Furthermore, it is impossible to predict reliably how the characteristics of a newly created service will affect the business operations and performance of the Group Companies. It may also become impossible to proceed with the new service as anticipated because of changes in the business environment or other factors. In such cases, financial performance and financial condition of the Group Companies may be adversely affected, and a certain amount of time may be necessary for the recovery of the investment or even may not be possible to recover the invested capital.

It is also possible that the information systems and internal control systems of an acquired company cannot be integrated successfully, or that executives, employees and customers of an acquired company will be lost after the acquisition. In addition, because future investment and lending could be substantial compared with the current scale of business operations, there is the possibility of increased risk affecting the financial position and other factors of all of the Group Companies.

Also, for engagements in joint ventures and business alliances, the Group Companies seek to avoid risk as much as possible concerning operating partners through detailed investigations of financial performance and condition, and thorough discussion of future business agreements and synergistic effects. However, if disagreements arise over management policy after the start of the service, there is a possibility that the anticipated synergistic effects will not be realized. In such cases, the financial performance and financial condition of the Group Companies may be adversely affected, and a certain amount of time may be necessary for the recovery of the investment or even may not be possible to recover the invested capital.

In addition, the Group Companies engage in investment activities targeting various companies including investments in venture enterprises. In such investment activities, if anticipated revenues are not generated due to reasons including changes in the business environment and sluggish performance of the investees, along with the probability of recovering the invested capital deteriorates, a part or all of the investments may become losses and the financial performance and financial condition of the Group Companies may be affected.

### (3) Expansion of Area of Service

The Group Companies provide services in a variety of industrial sectors, primarily in the Internet sector where technologies and business models change rapidly. The Group Companies have entered into new areas of services in order to create new services and to construct business models along with the trend of the times. When the Group Companies launch a new service in an area in which they have not previously been involved, it becomes exposed to risk factors specific to that activity, in addition to a considerable amount of prior investment. It is possible that the Group Companies will be affected by risk factors not listed in this section as a result.

The Group Companies may not be able to achieve the results initially expected, depending on expansion speed and growth scale of the market which they newly enter into. In addition, the Group Companies may incur a loss due to disposal and amortization of said business assets in cases such as discontinuation or withdrawal of such service. Such case may possibly affect the Group Companies' financial performance and financial position.

### (4) Goodwill

The Group Companies have adopted the International Financial Reporting Standards (IFRS) for

preparing the consolidated financial statements, commencing the three months ended March 31, 2013. IFRS does not require the amortization of goodwill, which differs from JGAAP. On the other hand, the financial performance and financial position of the Group Companies could be adversely affected by a possible impairment of goodwill, if the goodwill relating to a company is likely to be impaired due to such factors including deterioration of financial performance and the resulting recoverable amount being less than the carrying amount of goodwill.

#### 4 Business Risks

##### (1) Marketplace Service

Marketplace services such as Rakuten Ichiba, accommodation booking services such as Rakuten Travel, and online cash-back services such as Ebates basically provide venues for trading, and the Group Companies are not party to trading contracts. To ensure a sound market, the Group Companies strive to eliminate counterfeit goods or other goods that infringe on rights. The rules for these marketplaces stipulate that the Group Companies will incur no liability in the event of disputes between sellers or service providers and purchasers, and that disputes must be settled between the parties. However, if users of our marketplace services engage in activities that defame other parties or infringe their rights, including intellectual property rights and privacy rights, or if they engage in illegal activities, such as fraud, the resulting liabilities could affect not only the parties responsible for the actions that caused the problems, but also the Group Companies as venue provider. There could also be damage to the brand image of the Group Companies. Furthermore, sellers and service providers participating in our marketplace service can easily move to alternatives, such as other marketplaces or their own sites. It is possible that unless the Group Companies continue to provide a marketplace highly attractive to customers in addition to highly convenient and reliable services, the Group Companies' financial performance and financial position will be affected by a decline in the number of sellers and service providers.

##### (2) Direct Selling Service

The Group Companies have service categories that involve direct selling of goods and services to general consumers, such as Soukai Drug, Kenko.com, Rakuten Books, Rakuten Kobo and Rakuten Mobile. In these categories, the Group Companies are a party to sales contracts, etc., and are therefore liable for the quality and content of goods and services. When selling goods or providing services, the Group Companies take all possible steps to ensure compliance with relevant laws and regulations. However, if a defective product is sold or a defective service is provided, the Group Companies could become subject to actions by supervisory agencies. The Group Companies could also incur costs resulting from product recalls, liability for damages or other consequences. There could also be reputational damage leading to a decline in sales. The financial performance and financial position of the Group Companies could be affected in such situations. In addition, although the Group Companies control purchasing and inventory of products in accordance with the demand forecast, if the anticipated demand does not appear or if the product prices largely decline due to technological innovation or a competition with the competitor's products, write-off of products accounted for as inventory may need to be recorded in the Group Companies' financial accounts.

##### (3) Digital Contents Service

The e-book and video streaming services which provide digital contents often require a conversion of service format to those provided by the Group Companies when contents materials are being procured. This is in addition to licensing fees for films as well as the possible requirement of advance payment of minimum insurance amount for the licensors. Such prior expense may temporarily impact the financial performance and financial position of the Group Companies. Furthermore, if the revenue from the contents services falls below such costs of



supply, the financial performance and financial condition of the Group Companies may be adversely affected.

#### (4) Logistic Service

The Group Companies focus on improvement of delivery and shipping quality through measures including an expansion of logistics agency service for clients in order to further enhance user and client satisfaction.

The Group Companies utilize renting to expand distribution centers and make capital investments for equipment inside warehouses based on orders anticipated in the future. However in addition to that, such expenditure would possibly become a prior investment since it will take a certain period of time to build such facilities and start the operation. If the actual revenue from logistic agency service falls below the forecast, and is unable to make up for the prior investment, the financial performance and financial position of the Group Companies could be adversely affected. Furthermore, the Group Companies may incur a loss due to a disposal or amortization of said business assets in the case of transfer or discontinuation of such facilities.

#### (5) Financial Businesses

##### 1) Regulatory Requirements

The Company, Rakuten Card Co., Ltd., Rakuten Bank, Ltd., Rakuten Securities, Inc., Rakuten Life Insurance Co., Ltd. and other subsidiaries are involved in finance-related services. The activities of these companies are subject to the provisions of the Law Concerning the Regulation of Receiving of Capital Subscription, Deposits and Interest on Deposits (hereinafter referred to as the "Capital Subscription Law"), the Banking Law, the Interest Rate Restriction Law, the Money-Lending Control Law, the Installment Sales Law, the Financial Instruments and Exchange Act, the Act on Sales, etc. of Financial Instruments, the Commodities Futures Trading Law, the Trust Business Law, the Insurance Business Act, laws regarding payment services, the Criminal Proceeds Transfer Prevention Laws and other laws and regulations and regulatory requirements relating to financing activities, as well as the guidelines of supervisory agencies, and the rules imposed by autonomous regulatory bodies, such as stock exchanges and industry organizations. If subject to a suspension of business, license revocation or other actions for any reason, if new regulatory requirements, supervisory agency policies, regulations or supervisory guidelines are established, or if there are any changes that would adversely affect their services, the financial performance and financial position of the Group Companies could be seriously affected.

Rakuten Card Co., Ltd. has a small portion of loan contracts dating before December 31, 2007 that stipulate interest rates in excess of the maximum rates outlined in the Interest Rate Restriction Law. If there is an increase in the factors used to calculate Rakuten Card Co., Ltd.'s allowances, such as the average amount of claims, the financial performance and financial position of the business concerned could be affected by the need to make an additional provision.

##### 2) Business Environment

The Company is involved in financial services, providing member shop contract services in credit card settlements. As interchange fees from member shops constitute the main source of revenue in these services, the financial performance of the Group Companies may be affected as a result of a decline in the number of member shop contracts and the outflow of member shops due to intensifying competition. It is also possible that the financial performance and financial condition of the Group Companies may be affected by an increase in credit card fraud and other factors.

Rakuten Card Co., Ltd. deals mainly with individual customers and procures operating funds primarily by securitization of receivables and loans from financial institutions. The financial performance of the Group Companies could be affected if deteriorating economic conditions

cause a downturn in consumer spending and demand for credit, or if rising unemployment leads to an increase in personal bankruptcies or the number of heavily-indebted creditors, or if there are any changes in the credit policies of financial institutions due to changes in the state of financial markets or if the credit situation of the Group Companies deteriorates. If serious problems arise, affecting the Group Companies' ability to maintain and operate the credit control systems used to reduce the risk of uncollectable receivables, or its ability to recruit personnel with loan collection expertise, business operations and financial performance may be affected.

Securities make up a portion of the investment assets used by Rakuten Bank, Ltd. and may have a certain amount of effect on its investment income. Those investment assets consist of various financial products, including finance receivables, bonds and securitization and liquidation products. Returns on investments in financial products are significantly affected by factors that include interest rates, foreign exchange rates, market fluctuations and debtor credit risk. If this business is affected by losses on these investments, it is possible that the financial performance of the Group Companies will be affected. Credit costs relating to loan receivables, including allowances for doubtful receivables or guarantee charges, could increase if economic conditions deteriorate; if the credit situation of the debtor deteriorates; or if there are changes to accounting standards, changes in the credit situation of guarantee companies, or changes in guarantee performance conditions. Such situations could affect the financial performance and financial condition of the Group Companies.

Rakuten Securities, Inc. implements various types of transactions for individual investors, including margin transactions, foreign exchange margin transactions, investment trust sales, bond transaction, futures and options transactions, foreign futures transactions, and commodities futures transactions. Because its main source of revenue is brokerage commissions, the company is affected by conditions in financial markets including securities markets. As the financial markets are affected by economic conditions, global trends in financial markets, political developments, regulatory changes, investor sentiment and other factors, the financial performance and financial condition of the Group Companies may be affected under certain circumstances, such as if financial markets stagnate, or if there is a decline in margin balances and money lent to clients for margin transactions cannot be recovered because of sudden stock price fluctuations or other factors.

Rakuten Life Insurance Co., Ltd. mainly sells traditional protection-type life insurance products for individuals. Its main source of revenue is insurance revenue paid by the insured. The financial performance and financial condition of the Group may be affected under certain circumstances, such as if the rate of insured events increases (for example, the death rate or the hospitalization rate exceeding the forecast at the setting of insurance price), value of investment assets decreases due to a change in investment environments etc., the number of in-force contracts drastically decreases due to a decrease in the number of new contracts and an increase in cancellations, and the policy reserve for future payment of insurance claims and benefits required by the law becomes underfunded due to a change in the assumed conditions, increasing the provision for the reserve.

### 3) Liquidity

Rakuten Bank, Ltd. operates an Internet banking service. Since customers are able to make withdrawals from ordinary deposit accounts, close time deposits and transfer or remit funds to other financial institutions via the Internet, unforeseeable circumstances, such as the spread of rumors that impact on the reputation of this subsidiary or the Group Companies, could cause deposit outflows to occur more rapidly than would be the case in a conventional bank. The financial performance and financial position of the Group Companies could be affected if the outflow significantly exceeds the anticipated level.

#### 4) Efficacy of Risk Management

In recent years, the financial markets faced rapid and large-scale changes and chaos. Rakuten Card Co., Ltd., Rakuten Bank, Ltd., Rakuten Securities, Inc. and Rakuten Life Insurance Co., Ltd. have organized risk management policies and procedures to put into operation. However, the financial performance and financial condition of these companies may be adversely affected as a result of the possibility that a part of such risk management policies and procedures of these companies are not necessarily able to precisely predict various future risks in the financial markets and are not able to function effectively.

#### (6) Third-Party Outsourcing and Alliances

##### 1) Outsourcing and Alliances with Financial Institutions, etc.

The Company is involved in financial services, providing services based on agreements with companies with international credit cards such as JCB Co., Ltd., Mastercard Incorporated (U.S.) and Visa Inc. (U.S.). The financial performance of the Group Companies may be affected if the relationships with these business partners deteriorate.

Rakuten Bank, Ltd. does not have its own ATM network. For this reason, it has concluded ATM utilization agreements with the Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Bank, Ltd., Seven Bank, Ltd., Japan Post Bank Co., Ltd. and Aeon Bank, Ltd. The business operations and performance of the Group Companies would be seriously affected if its relationships with these banks deteriorate, or if it becomes unable to use these services and systems.

##### 2) Alliances with Travel-Related Businesses

In the Travel services, our policy is to improve the overall quality of our travel-related services and develop the services through cooperation with domestic and overseas travel-related businesses, airlines and railroad companies, and by promoting globalization. Business operations and financial performance in this segment could be affected if relationships with these partners deteriorate, or if negotiations with prospective new partners are unsuccessful.

##### 3) Interconnection Agreements with Telecommunications Providers

To ensure the efficient provision of telecommunications services, Rakuten Communications Corp. has concluded interconnection agreements providing for reciprocal connections between its telecommunications facilities and those of other telecommunications providers. Telecommunications carriers that own telecommunications facilities are, in principle, required to allow other providers to connect to those facilities. The business operations, financial performance and financial position of the Group Companies could be affected if changes to this situation, such as the abolition or relaxation of this requirement, result in increased usage charges for this company, or if the conditions are amended in ways disadvantageous to this company.

##### 4) Use of Telecommunication Lines Provided by Telecommunications Operator in the Mobile Virtual Network Operator (MVNO) Service

“Rakuten Mobile” service provided by the Company involves the use of lines leased from other telecommunications operators by Rakuten Communications Corp. to provide its service. In the event that usage fees are increased by the partnering telecommunications operator, or if the partnership with the telecommunication operator terminates for whatever reasons, the services provided by the Company could be disrupted and the financial performance and financial position of the Group Companies could be affected.

#### 5) Supply of Goods and Services, Content and Technology

The Group Companies rely on outside suppliers or licensing arrangements for the supply of goods and services used in direct selling services, and for certain types of content or technology used on their websites, such as search engines, news and other services. If the supply is interrupted and the Group Companies become unable to access quality content and technology efficiently, if prices increase, or if licenses are terminated because of deteriorating relationships with suppliers, bankruptcies, demand growth, changing economic conditions, contract changes or other factors, the Group Companies' ability to provide services could be compromised, and the financial performance and financial position of the Group Companies could be affected.

#### 6) Delivery of Goods

Marketplace-model services such as Rakuten Ichiba and direct selling model services such as Rakuten Books rely primarily on outside shipping and delivery providers to deliver goods from seller to purchaser. The financial performance and financial position of the Group Companies may be affected if user and store satisfaction regarding delivery deteriorates due to an increase in delivery charges, worsening of delivery conditions or other factors in the future.

### 5 Compliance Risk

#### (1) Possibility of Imposition of Regulatory Restrictions

In addition to the items listed under "Section 4 (5) 1) Regulatory Requirements," the Group Companies are subject to the provisions of various other laws and regulations, including the Act against Unjustifiable Premiums and Misleading Representations (Premiums and Representations Act), the Act Concerning the Prohibition of Unauthorized Computer Access; the Act on the Limitation of Liability for Damages of Specified Telecommunications Service Providers and the Right to Demand Disclosure of Identification Information of the Senders; the Act on Specified Commercial Transactions; the Act on Regulation of Transmission of Specified Electronic Mail; the Consumer Contract Act; the Act against Delay in Payment of Proceeds and others to Subcontractors; the Secondhand Articles Dealer Act; the Travel Agency Act; the Telecommunications Business Act; the Employment Security Act; and the Act Concerning the Creation of Conditions, for the Safe and Secure Use of the Internet by Young People; the Act Concerning Financial Settlements; the United States Foreign Corrupt Practices Act; Act on Prohibition of Private Monopolization and Maintenance of Fair Trade, as well as policies and guidelines established by regulatory agencies. If the Group Companies' business activities become subject to new restrictions due to the establishment and amendment of laws and regulations, the cancellation of approvals and permits by regulatory agencies, or the formulation of new guidelines and voluntary rules, or for other reasons, there could be an impact on the Group Companies' financial performance and financial position.

If the scale of the Group Companies' service provision expands, it is possible that issues will be raised under the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade concerning measures implemented by the Group Companies to provide a healthy business environment for merchants, service providers and other partners, or the content of agreements on which those measures are based. If this happens, new restrictions could be imposed on the Group Companies' services. This could affect the Group Companies' business activities, financial performance and financial position.

Additionally, the Group Companies consider compliance with laws and regulations as an important corporate responsibility and have been enforcing strict compliance by strengthening the Group's compliance framework. However, despite these efforts, it is possible that the Group Companies may not be able to avoid compliance risks including personal fraud committed by an executive or an employee of the Group Companies or the risk of damage to the Group's social

credibility. Such situations could affect the business operations, financial performance and financial condition of the Group Companies.

## (2) Possibility of Litigation

The Group Companies could be exposed to litigation or other claims if merchants, purchasers or other users engage in illegal activities or get involved in disputes, or if losses are incurred by merchants, purchasers or other users as a result of system failures or other situations. As for e-book readers and other products, although its manufacturing are commissioned to partner companies, there is a possibility that product defects or other deficiencies may arise, which may cause the Group Companies to incur product liability or other obligations concerning compensation for damages or other penalties. Furthermore, due to the immense speed of technical innovation relating to the services provided by the Group Companies, there is the possibility of unforeseeable litigation or other actions resulting from new contingencies or business risks that have not yet become apparent.

If the Group Companies' rights are infringed or damaged in some way by third parties, or if the Group Companies are not protected from the infringement of its rights by third parties, it is possible that substantial costs will be incurred due to litigation or other actions to protect those rights. Depending on the nature of such litigation and other actions and the amounts sought, such situations could impact on the business activities, performance and financial performance of the Group Companies.

## 6 Risks Pertaining to Intangible Assets

### (1) Group Branding

The Group Companies have worked on developing a diversity of services and advertising with the aim of building the Rakuten brand. While the Group Companies believe that they have achieved a certain level of brand recognition among consumers, if future initiatives fail to produce the anticipated benefits, it is possible that these efforts will not result in revenues for the Group Companies. If there are problems relating to development of services, confidence in the Rakuten brand could be eroded, with possible implications for the Group Companies' financial performance and financial position.

### (2) Intellectual Property

The Group Companies endeavor to protect their technologies, brands and content used by the Group Companies to acquire intellectual property rights such as patents, trademarks, copyrights and domain names, and to receive licenses granted to them. However, the business activities, performance and financial position of the Group Companies could be affected if they are unable to protect their technologies, brands and content used by the Group Companies without being able to acquire intellectual property, or if substantial costs are incurred in order to acquire licenses to the intellectual property. Costs or losses could also be incurred if it becomes necessary to defend against or settle claims of intellectual property infringements in relation to technology, brand, content and other items used by the Group Companies. Such situations could also result in the restriction of the Group Companies' ability to provide services or use related technologies, brands and content. The business activities, performance and financial position of the Group Companies could be affected in such cases.

## 7 Market Risks

### (1) Interest Rate Fluctuations

Funds procured for the business activities of the Group Companies including the Company and its subsidiaries, namely Rakuten Card Co., Ltd., Rakuten Bank, Ltd., Rakuten Securities, Inc.

and Rakuten Life Insurance Co., Ltd., may be exposed to the effects of interest rate fluctuations. Certain financial subsidiaries use the funds for investment in securities, lending and other purposes. For this reason, the financial performance and financial position of the Group Companies could be affected by movements in market interest rates.

(2) Fluctuations in the Prices of Securities, etc.

The Group Companies hold substantial amounts of financial products, including securities and money trusts. Fluctuations in the market prices of these securities and other financial products could affect the financial performance and financial position of the Group Companies.

(3) Exchange Rate Risk

Items in foreign currencies among the foreign-currency denominated investment and the transactions in foreign currencies are executed by the Group Companies for the purpose of hedging exchange rate risk. Although the Group Companies translate items denominated in local currencies into Japanese yen for the business performance, assets and liabilities pertaining to overseas associates when preparing its consolidated financial statements, it is difficult to completely avoid such risks. For this reason, the financial performance and financial position of the Group Companies could be affected by movements in foreign exchange rates.

8 Risks Relating to Financing

Loan contracts and commitment lines that the Group Companies have concluded are in some cases subject to covenants clauses, and any deterioration in the financial performance, financial position or credit rating of the Group Companies could result in demands for full repayment of existing debt, increases in interest rates or commission rates, or the provision of new collaterals under these clauses. There is no guarantee that the Group Companies will be able to procure funds on favorable terms, and in a timely manner under certain circumstances, such as if financial markets become unstable or if the Group Companies' credit status deteriorates and the credit rating given to the Group Companies by credit rating agencies is lowered. Such situations could have a limiting effect on the development of the Group Companies' services, and could affect the financial performance and financial position of the Group Companies.

9 Risks Relating to Deferred Tax Assets

The Company and some of its consolidated subsidiaries currently recognize future tax benefits as deferred tax assets, in accordance with International Financial Reporting Standards (IFRS). The computation of deferred tax assets is based on various projections and assumptions, including estimates of future taxable income based on business forecasts. It is possible that actual results will differ from these projections and assumptions. If estimates of future taxable income indicate that the Company or its subsidiaries will be unable to recover part or all of their deferred tax assets, the financial position and financial performance of the Group Companies would be affected by the consequent reduction in the value of said deferred tax assets.

10 Risks Pertaining to Financial Reporting

In an effort to prepare reliable financial statements, the Group Companies strengthened their internal controls systems in relation to financial reporting and conducted assessments of their internal controls in accordance with internal control reporting requirements under the Financial Instruments and Exchange Act. However, should material defects be discovered, such as when the internal controls of the Group Companies fail to function properly or internal fraud cannot be prevented, the public reputation of the Group Companies could be damaged, and the financial performance and financial position of the Group Companies could be affected.

## 11 Human Resources Risk

The services of the Group Companies require human resources with specialized skills relating to individual service segments including Internet and finance. As the Group Companies expand their activities and develop their business internationally, it is indispensable to continue the recruitment of personnel. The business activities, financial performance and financial position of the Group Companies could be affected if it becomes difficult to secure skilled staff in the future due to reasons such as escalating competition for human resources in specific fields or regions, changes in market needs, or if there is an exodus of existing staff.

In addition, the business activities, the financial performance and financial position of the Group Companies could be seriously affected if Hiroshi Mikitani the founder and the Chairman and President and Representative Director of the Company, were to resign or become incapable of performing his duties.

## 12 Information Security Risks and Risks Pertaining to Telecommunication Networks and Systems

The Group Companies acquire personal information that can be used to identify users, including names, addresses, telephone numbers and credit card numbers in various services they provide. The Group Companies take all possible care to protect privacy and personal information of users through proper information management. However, the possibility of information leaks or abuse or other accidents due to activities including illegal access cannot be completely eliminated, and if such incidents occur, it could result in legal disputes or actions by domestic and overseas regulatory agencies. Such situations could impact on the financial performance and financial position of the Group Companies.

Many of the Group Companies' services are provided by the use of telecommunications networks linking computer systems. However, there lies the possibility that troubles might occur in the provision of normal services, or that illegal usage, deletion or fraudulent procurement of important data and others might occur due to reasons such as failure occurring in the telecommunication network, failure or defects affecting the hardware or software in the network or the computer system, criminal activities such as external access to computer resources using illegal methods such as computer viruses or malware, and errors by employees and executives.

If the service is suspended or the performance is deteriorated as a result of these, the possibility of loss of income opportunities, a decline in confidence in the Group Companies' systems, compensation claims, or actions by regulatory agencies could be expected.

In addition, regarding the illegal use of the Company's services, if indemnification cannot be sought to any specific entity, the Group Companies will incur the loss. Such situations could impact on the financial performance and financial position of the Group Companies.

## 13 Risks Pertaining to Natural Disasters, Conflicts and Accidents

Natural disasters such as earthquakes, typhoons, tsunamis, fires, power outages, infections caused by previously unknown diseases, international conflict and other contingencies could have a serious impact on the service operations of the Group Companies

Since the main business premises of the Group Companies are located in the greater Tokyo area and the East Coast and West Coast of the U.S., a massive natural disaster or other events in these areas could disrupt services. In addition to degrading the Company's reliability and damaging its brand image, such situations could also impact on the operations, financial performance and financial position of the Group Companies.

The Group Companies have worked to enhance preparation and arrangement for emergency response measures, including the formulation of business continuity plans. However, there is no guarantee that these measures will be sufficient to mitigate all of the effects of various natural disasters or other events, and the continuity of service operations may be difficult or

jeopardized if there are serious losses to physical and human resources.

#### 14 Administrative Operation Risk

The Group Companies, in their conduct of business, implements numerous measures to increase the accuracy and efficiency of work operations including implementation of double-checking systems that enforce redundant checks of operation details by utilization of information systems and by employees other than those parties responsible for the operation. However, there are certain operations for which specialized information systems have not been introduced and which are entrusted to manual handling, and errors in administrative procedure may occur due to misrecognition by company officers and employees, incorrectly performed operations and other factors. Depending on the nature of the work operation, it is possible that errors in administrative procedures will hinder reliable provision of service or lead to business losses or to the outflow of information such as personal information and may affect the operations, financial performance and financial position of the group companies.

The Group Companies endeavor to standardize and document internal regulations and administrative procedures. However, it is possible that as a result of an increase in administrative work and the introduction of new services in conjunction with the Group Companies' rapid expansion that sharing and transfer of required expertise for business execution would be inadequate. As a result, there may be increased errors in administrative procedures and lower productivity, which could affect the financial performance and financial position of the group companies.

#### 15 Reputation Risk

There is the possibility that various kinds of publicity and information about the Group Companies may be spread. Although such publicity and information include those not based on correct information and others based on speculation, they could possibly affect the understanding and perception or actions of users of the Company's services and its investors, regardless of accuracy of such publicity and information or involvement of the Group Companies. Depending on the contents, the scale and other details of such publicity and information, the Group Companies' business activities, financial performance and stock price may be affected.

#### 5. Material Business Agreements, etc.

At an Ordinary Board of Directors Meeting on October 28, 2016, the Company resolved to execute a new share purchase agreement to acquire all shares of Careem Inc., through its subsidiary.

Additionally, at an Ordinary Board of Directors Meeting on February 20, 2017, the Company resolved to acquire its treasury stock, pursuant to its Articles of Incorporation based on the provisions of Article 459, Paragraph 1, Item 1 of the Companies Act. Details are described in "V. Financial Information, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements, Notes to the Consolidated Financial Statements, 47. Subsequent Events."

#### 6. Research and Development Activities

Our research and development activities are carried out independently within each of the business segments with the purpose of contributing to the development operations of the Company and the Group Companies. In June 2010, a research base was established in New York, the United States, in February 2014 in Paris, France, and in July 2015 in Singapore and Boston, the United States, adding to our Facilities in Japan, to expand our research system. We explore research themes focused on four areas, namely AI/deep learning, user interaction and AR/VR, large-scale distribution processing, and the IoT and drone technologies that combine the above areas, based on our corporate vision on the future direction of Internet development, with



the details given below. Since the Group Companies' research and development activities cover Internet-related basic technologies, which cannot be classified into specific segments, the activities are not listed by segment. The total expense of research and development in the current fiscal year was ¥9,977 million.

1) AI/Deep Learning

In the area of AI/deep learning, we develop advanced technologies to automatically analyze the abundant amount of text data and multi-media data that the Group Companies possess, as well as technologies that will optimize various services based thereon. The aim is to create a diverse platform for searches, recommendations, advertising and language processing that can be horizontally expanded to each business.

2) User Interaction and AR/VR

We have developed user interaction that enables a rich content experience and that is compatible with various devices and sensors in line with changes in users' technical environments, in order to enhance the overall service level of the Company and the Group Companies. This area also includes the latest user interaction such as AR/VR.

3) Scale Distribution Processing

As the systems of the Company and the Group Companies expand, we create competitive advantages by developing infrastructure for processing such as parallel distributed processing to analyze with remarkable efficiency logs and customer/product data that continuously proliferate.

4) IoT and Drone Technologies

We are engaged in the research and development of an IoT technology platform and drone technology that combine the above three research areas of technologies.

## 7. Analyses of Consolidated Business Results, Financial Position and Cash Flows

### (1) Analysis of Financial Position

#### (Assets)

Total assets at December 31, 2016 amounted to ¥4,604,672 million, an increase of ¥334,719 million from ¥4,269,953 million at the end of the previous fiscal year. Primary factors were a decrease of ¥100,454 million in investment securities for banking business, which was offset by increases of ¥180,888 million in loans for credit card business, and ¥141,756 million in loans for banking business.

#### (Liabilities)

Total liabilities at December 31, 2016 amounted to ¥3,924,326 million, an increase of ¥318,386 million from ¥3,605,940 million at the end of the previous fiscal year. Primary factors were increases of ¥139,162 million in deposits for banking business, ¥72,395 million in financial liabilities for securities business, and ¥61,909 million in bonds and borrowings.

#### (Equity)

Equity at December 31, 2016 was ¥680,346 million, an increase of ¥16,333 million from ¥664,013 million at the end of the previous fiscal year. Primary factors were a decrease of ¥19,599 million in other components of equity resulting from fluctuations in the foreign exchange rates, which was offset by an increase of ¥33,720 million in retained earnings resulting from the recognition of ¥37,995 million of net income attributable to owners of the parent company.

### (2) Analysis of Business Results

#### (Revenue)

The Group Companies, for the fiscal year ended December 31, 2016, achieved revenue of ¥781,916 million, an increase of ¥68,361 million (9.6%) from ¥713,555 million for the previous fiscal year. The factors for these were sales expansions due to steady growth of domestic existing businesses and robust revenues of Rakuten Mobile and Ebates in the Internet Services segment, as well as the growth of shopping transaction value and revolving balances accompanying an increase in Rakuten Card membership in the FinTech segment.

#### (Operating expenses)

Operating expenses for the fiscal year ended December 31, 2016 amounted to ¥677,598 million, an increase of ¥76,597 million (12.7%) from ¥601,001 million for the previous fiscal year. This was due to increases in cost of sales of goods and service, advertising expenses and promotion expenses, and employee benefits expenses in conjunction with business expansions and other factors.

#### (Other income)

Other income for the fiscal year ended December 31, 2016 amounted to ¥5,323 million, a decrease of ¥21,668 million (80.3%) from ¥26,991 million for the previous fiscal year. This was due to the absence of unrealized gains on stocks recorded during the previous fiscal year and other factors.

#### (Other expenses and impairment loss)

Other expenses and impairment loss for the fiscal year ended December 31, 2016 amounted to ¥31,664 million, a decrease of ¥13,192 million (29.4%) from ¥44,856 million for the previous fiscal year. This was due to a decrease of ¥12,776 million in impairment loss of goodwill etc.

(Operating income)

Operating Income for the fiscal year ended December 31, 2016 amounted to ¥77,977 million, a decrease of ¥16,712 million (17.6%) from ¥94,689 million for the previous fiscal year. This was mainly due to increased expenses from aggressive sales activities, the absence of unrealized gains on stocks recorded during the previous fiscal year, and a slump in the stock market, despite an increase in revenue.

(Income before income tax)

Income before income tax for the fiscal year ended December 31, 2016 amounted to ¥73,923 million, a decrease of ¥18,064 million (19.6%) from ¥91,987 million for the previous fiscal year. This was due to factors explained in operating income.

(Income tax expense)

Income tax expense for the fiscal year ended December 31, 2016 amounted to ¥35,922 million, a decrease of ¥11,785 million (24.7%) from ¥47,707 million for the previous fiscal year. This was due to a decrease in taxable income and other factors.

(Net income)

As a result of the above, net income for the fiscal year ended December 31, 2016 amounted to ¥38,001 million, a decrease of ¥6,279 million (14.2%) from ¥44,280 million for the previous fiscal year.

(Net income attributable to owners of the Company)

As a result of the above, net income attributable to owners of the Company for the fiscal year ended December 31, 2016 amounted to ¥37,995 million, a decrease of ¥6,441 million (14.5%) from ¥44,436 million for the previous fiscal year.

(3) Status of Cash Flows

Cash and cash equivalents at December 31, 2016 was ¥548,269 million, an increase of ¥47,240 million from the end of the previous fiscal year. Among these, deposits with the Bank of Japan for banking business was ¥376,879 million, an increase of ¥28,805 million from the end of the previous fiscal year. Cash flow conditions and their major factors for the fiscal year ended December 31, 2016 are as follows.

(Net cash flows from operating activities)

Net cash flows from operating activities for the fiscal year ended December 31, 2016 resulted in a cash inflow of ¥30,700 million (compared with a cash inflow of ¥78,245 million for the previous fiscal year). Primary factors included a cash outflow of ¥180,741 million for an increase in loans for credit card business and a cash outflow of ¥141,756 million in loans for banking business, which were offset by a cash inflow of ¥139,162 million from an increase in deposits for banking business, net proceeds of ¥59,983 million from fluctuations of financial assets and liabilities for securities business (a cash outflow of ¥11,725 million for increase in financial assets and a cash inflow of ¥71,708 million for increase in financial liabilities), and the recognition of ¥73,923 million for income before income tax and ¥44,257 million in depreciation and amortization.

(Net cash flows from investing activities)

Net cash flows from investing activities for the fiscal year ended December 31, 2016 resulted in a cash outflow of ¥26,841 million (compared with a cash outflow of ¥224,078 million for the previous fiscal year). Primary factors included net proceeds of ¥98,790 million for purchase and

sales of investment securities for banking business (a cash outflow of ¥249,291 million for purchase of investment securities for banking business and a cash inflow of ¥348,081 million from sales and redemption of investment securities), which was offset by a cash outflow of ¥42,325 million for purchase of intangible assets, a cash outflow of ¥33,612 million for acquisition of subsidiaries, and net cash outflows of ¥32,361 million for purchase and sales of investment securities (a cash outflow of ¥53,213 million for purchase of investment securities and a cash inflow of ¥20,852 million from 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, 2016 resulted in a cash inflow of ¥45,200 million (compared with a cash inflow of ¥221,831 million for the previous fiscal year). Primary factors included a cash outflow of ¥163,832 million for repayment of long-term debt, which was offset by a cash inflow of ¥212,100 million from long-term debt.

#### (4) Recognition and Presentation of Revenues

The Group Companies together form a Global Innovation Company engaged in Internet Services and FinTech, operating in multiple businesses, including its core EC business. Revenues arising from these businesses are recognized based on contracts with customers. There are no material revenues which are subject to variable consideration. In addition, the amount of promised consideration does not include a significant financial element.

##### Internet Services

With regard to the Internet Services segment, the Group Companies engage in EC businesses such as Rakuten Ichiba, Rakuten Travel, Ebates, Rakuten Books, Kenko.com, OverDrive, Rakuten Communications, Tohoku Rakuten Golden Eagles and a variety of other Internet businesses. The primary revenues in the Internet Services segment are described below.

##### Rakuten Ichiba and Rakuten Travel

A fundamental characteristic of the marketplace model EC services, which includes Rakuten Ichiba and travel booking services such as Rakuten Travel is to provide EC platforms for trading with customers, and the Group Companies provide merchants and travel-related businesses, with services including EC platform services, transaction related services, advertising related services to promote the expansion of sales through the Group Companies, and payment agency services related to settlements between merchants or travel-related businesses and consumers. The nature of the services and the related rights and obligations are stipulated in various agreements with customers. Performance obligations are identified based on whether services are distinct or not, and the pattern of transfer to the customer. Revenues from major performance obligations are recognized as described below.

The Group Companies have obligations based on agreed terms to provide services to match merchants and travel-related businesses with Rakuten users, and to enable the resultant transactions to be processed appropriately. These performance obligations are satisfied when the individual transaction between merchants or travel-related businesses and Rakuten users is completed. Revenues are recognized at the point of satisfaction of these performance obligations, based on the gross amount of merchandise sales (monthly sales of merchants and travel-related businesses) of completed transactions multiplied by the specified ratio stipulated separately for each service, plan, or amount of gross merchandise sales. The related payments are receivable approximately within three months of the completion of the transaction.

With regard to advertising-related services, the Group Companies have obligations to provide fixed-term advertisements to customers. The advertising related services are provided by displaying the advertisement over the contracted term, and the progress of providing the service is measured based on the passage of time. Therefore, performance obligations are satisfied over the contract term, and revenues are recognized evenly over the contract term according to the amount stipulated in the agreement for each type of advertisement. Advertising fees are, in principle, paid by the end of the second subsequent month after the month that includes the advertising commencement date.

With regard to payment agency services, based on credit card settlement agreements, the Group Companies have obligations to provide payment agency services between merchants and travel-related businesses and users of the Group Companies. These services are to process data for authorization, settlement and cancellation of credit card transactions. Commission revenues arising from these transactions are primarily recognized based on the amount stipulated in the agreement when customers use their credit cards, because the performance obligations are satisfied at that point. Commissions are received within one and a half months after the invoice date set out for each payment category, following the satisfaction of performance obligations.

With regard to EC platform services, the Group Companies have obligations to provide services for merchants that open and operate on our EC platform, and the related consulting services and other similar services for a contracted term. These services are provided over time, and so these performance obligations are satisfied as time passes. Accordingly, the revenue is recognized over the contracted term on a monthly basis based on the amount stipulated in the agreement for each type of shop. Furthermore, consideration for a transaction is received at the time of contract in the form of advance payment for a period of three months, six months or one year, prior to the satisfaction of performance obligations.

#### Ebates

Ebates provides various services such as services for promoting Ebates members' purchases at websites of the retailers (customers), through offering cash back to the Ebates members (hereinafter "cash back service"), web advertising and targeted mailing services for individual consumers. As for its core service, cash back service, Ebates is contractually obligated to promote Ebates members' purchases at the retailers' websites. Thus, such performance obligations are considered to be satisfied at the point of purchase by Ebates members. Upon confirmation of the purchase by an Ebates member, an amount calculated by multiplying the purchase amount by a certain rate is recorded as commission revenue, and cash back paid to the Ebates member is recorded simultaneously as expenses. Revenue and expenses arising from the provision of this service are recorded on a gross basis, as Ebates has the right to enforce discretionary control of the customers and Ebates members over the transactions including pricing. Payments of fees are received approximately within three months from the end of the month in which the order is completed and performance obligations are satisfied.

#### Rakuten Books and Kenko.com

In the Internet Services segment, when the Group Companies provide goods, mainly for Rakuten users of Internet shopping sites, such as Rakuten Books and Kenko.com, the Group Companies are the principal in the sales contracts. In these direct selling services, revenue is recognized when goods are delivered to the customer. In addition, payments are received

approximately within two months after the delivery of goods when performance obligations are satisfied. For Japanese book sales through Rakuten Books, revenues are recognized on a net basis after deducting costs of sales, because the role of the Group Companies in these transactions has the nature of an agent given the resale price maintenance system in Japan.

#### OverDrive

With regard to OverDrive, the Group Companies provide content distribution services, including e-books and audio books for libraries and educational institutions. The Group Companies have obligations based on agreements with libraries, which are the main customers, to distribute contents and provide services relating to hosting and customer support. In terms of the distribution of contents, performance obligations are considered to be satisfied at the point of purchase of the contents by the libraries, and thus the revenue is recognized at that point. Payments relating to such performance obligations are received approximately within two months of the invoice month. Performance obligations with respect to services relating to hosting and customer support are satisfied over the contract term as time passes, and the revenue is recognized evenly over the contract term in which such performance obligations are satisfied. Furthermore, consideration for a transaction is received each year in the form of advance payment prior to the satisfaction of performance obligations.

#### Rakuten Communications

With regard to Rakuten Communications, the Group Companies provide telephone related services to subscribers such as telephone relay services, Internet connection services and other services. For telephone related services, maintaining utilizable telephone circuits at all times and providing a telephone communication service using the circuits based on the respective contract are identified as performance obligations. The performance obligation for maintaining utilizable telephone circuits is satisfied over the period, and the performance obligation for providing a telephone communication service is satisfied when the telephone circuits are utilized. Therefore, revenues arising from providing telephone circuits are recognized evenly over the contract term, while for the provision of telephone communication service, subscriber fees according to the actual usage of telephone circuits are recognized on monthly basis. For Internet connection services, providing users with Internet access over the contract terms is identified as a performance obligation, and therefore, Internet connection revenues are recognized on monthly basis. Payments of the amounts recorded as monthly revenues are received in accordance with the settlement method selected by the user within a short period of time, after the satisfaction of performance obligations subject to the payment terms and conditions set out separately by the credit card companies, etc.

#### Tohoku Rakuten Golden Eagles

With regard to Tohoku Rakuten Golden Eagles, the Group Companies engage in the sales of tickets and merchandise for Tohoku Rakuten Golden Eagles, and advertising services. For ticket sales, revenues are recognized when each baseball game is held because the performance obligation is considered to be satisfied at that point. Payments for tickets are received in accordance with the settlement method selected by the purchaser after the application for reservation is completed, subject to the payment terms and conditions set out separately by the credit card companies, etc. For sales of goods, revenues are recognized when goods are delivered because the performance obligation is satisfied at the point of delivery. Payments for goods are received at the time of delivery when the performance obligation is satisfied. For advertising services, the performance obligations are satisfied over the contract term, and revenues are recognized evenly over the contracted term according to the amount stipulated in

the agreement for each type of advertisement. Advertising fees are paid within four months, in principle, after the commencement of the contract period.

#### FinTech

With regard to the FinTech segment, the Group Companies engage in financial services businesses such as Rakuten Card, Rakuten Bank, Rakuten Securities and Rakuten Life Insurance, and recognize revenues primarily as follows.

##### Rakuten Card

With regard to Rakuten Card, the Group Companies engage in credit card businesses, and receive interchange fees for settlement services between credit card users and member shops, as well as revolving payment commissions, installment commissions, and commissions arising from cash advances. With regard to interchange fees, the performance obligation, being the provision of settlement services, is satisfied at the time of the sales data transfer from a member shop to Rakuten Card Co., Ltd. as a result of a credit card purchase. Therefore, commission revenues which are at fixed rates of the settlement amounts are recognized at that point. In addition, basic points worth 1% of the transaction price are granted to the card members, and the expenses associated with the granting of these points are deducted from the interchange fees. As Rakuten Card Co., Ltd. collects credit card payments from the card members once a month, in principle, on a predetermined date, the payments are in substance received approximately within two months after the satisfaction of the performance obligations. For revolving payment commissions, installment commissions and commissions for cash advances with a finance element, the respective commissions, which are at fixed rates of the revolving balance, the number of payment installments or the amount of the cash advance are recognized as revenue over the period when the interest accrues in accordance with IFRS 9.

##### Rakuten Bank

With regard to Rakuten Bank, the Group Companies provide a wide range of services including Internet banking (deposits, loans and foreign exchange) and other services. With regard to loans, the Group Companies handle loans such as personal loans, "Rakuten Super Loans," and housing loans, "Rakuten Bank home loans (flexible interest rate)," and earn interest income thereon. Interest income is also earned from investing activities such as interest on securities. This income, such as loan interest and interest earned on securities is recognized over the period in accordance with IFRS 9. With regard to foreign exchange, commission revenue is recognized when the foreign exchange transactions are executed because the performance obligation is satisfied at the point of processing the transaction.

##### Rakuten Securities

With regard to Rakuten Securities, the Group Companies engage in financial instruments transaction services and other associated services. Sources of revenue include commissions arising from these transactions, net trading gains, and interest, etc. There is a wide range of financial instruments transactions, including domestic stock transactions, foreign stock transactions, and sales of investments, and the commission structure for each transaction differs. For brokerage transactions, margin transactions and sales of investments, performance obligations are satisfied when trades are concluded on the trade date or other appropriate date, therefore revenues arising from brokerage transactions are recognized at that point in time. Commissions from spot transactions of shares are received within three business days in principle after the satisfaction of the performance obligations, while commissions from margin transactions and future transactions are received approximately within the period from six

months to one year during which open contracts are settled. The Group Companies record revenue and operating expenses measured at fair value on foreign exchange margin transactions, and income received on open contracts of domestic margin transactions, in accordance with IFRS 9.

#### Rakuten Life Insurance

With regard to Rakuten Life Insurance, the Group Companies engage in the life insurance business, and recognize fund management revenues which are primarily insurance premiums and interest on securities. These insurance revenues arise from protection-based life insurance contracts for individuals, which are the primary products for Rakuten Insurance. Revenue from insurance premiums paid by policy holders calculated by using the rate stipulated in the respective contract is recognized in accordance with IFRS 4. Also, interest income is recognized as revenue over the period in accordance with IFRS 9.

#### (5) Recoverability of Deferred Tax Assets

In terms of deferred tax assets, the Group Companies recognize all deductible temporary differences as well as all carryforwards of unused tax loss and tax credit, to the extent that there will likely be sufficient taxable income in the future to which they will be utilized. The Group Companies believe that their estimates of the assessment of the recoverability of deferred tax assets are reasonable and that a recoverable amount of deferred tax assets has been recognized. However, as these estimates contain uncertainties beyond the Group Companies' control, if unforeseeable changes occur in the assumptions, which precipitate changes to the estimates relating to the assessment of recoverability, the Group Companies may reduce the deferred tax assets in the future.

#### (6) Financial Assets Measured at Fair Value

As financial assets for securities business are subject to short-term settlement, their fair values approximate their carrying amounts, and thus the fair values are measured at their carrying amounts.

In terms of the Group Companies' investment securities for banking business, investment securities for insurance business and investment securities, the fair value of listed shares is measured at the consolidated fiscal year-end closing market price, while the fair value of unlisted shares is measured by using an appropriate valuation technique, such as a method of comparison with similar sectors. The fair value of bonds is measured by reasonable valuation methods based on available information, including reference trading statistics and brokers' quotes.

Within the Group Companies' derivative assets, forward exchange contracts are measured at fair value at the end of year based on forward exchange rates. Fair value of interest rate swaps is measured at the present value calculated by discounting future cash flows for the remaining maturity using the rate of the interest rate swap at the end of year. Since counterparties of interest rate swap contracts are limited to financial institutions with superior credit ratings, consideration of credit risk is not incorporated in the calculation of fair value as it is minimal.

As other financial assets and financial liabilities are mainly settled on short-term, their fair values approximate their carrying amounts.



### III. Equipment and Facilities

#### 1. Status of Capital Expenditures, etc.

Capital expenditure in the current fiscal year was ¥53,934 million, mainly in the area of development and acquisition of software.

#### 2. Situation of Major Equipment

##### (1) Company Submitting Financial Reports

As of December 31, 2016

Business Place (Location)	Name of segments	Details of major facilities	Book value (Millions of Yen)				Number of employees
			Buildings and accompanying facilities	Furniture, Fixtures and equipment	Software	Total	
Head Office (Setagaya-ku, Tokyo)	—	Facilities involved with all operations	4,718	2,327	23,612	30,657	4,625

(Notes) 1 Consumption tax is not included in the above amounts.

2 Number of employees represents the number of persons engaged.

##### (2) Domestic Subsidiaries

As of December 31, 2016

Name of companies	Location	Name of segments	Details of major facilities	Book value (Millions of Yen)				Number of employees
				Buildings and accompany- ing facilities	Furniture, Fixtures and equipment	Software	Total	
Rakuten Securities, Inc.	(Setagaya- ku, Tokyo)	FinTech	Facilities involved with all operations	474	913	13,576	14,963	307

(Notes) 1 Consumption tax is not included in the above amounts.

2 Number of employees represents the number of persons engaged.

#### 3. Plans for Introduction, Disposals, etc. of Facilities

##### (1) Introduction, etc. of Major Facilities

As of December 31, 2016

Name of companies	Location	Name of segments	Details of major facilities	Planned investment amount		Method of procuring funds	Start date	Planned completion date
				Total (Millions of Yen)	Paid (Millions of Yen)			
Rakuten Co., Ltd.	Card(Setagaya- ku, Tokyo)	FinTech	Update of main system	16,172	14,854	Private fund	August 2014	April 2017

##### (2) Major Facility Disposal, etc.

Not applicable.

#### IV. Information on the Company Submitting Financial Reports

##### 1. Information on the Company's Shares

###### (1) Total Number of Shares, etc.

###### 1) Total Number of Shares

Class	Total number of shares authorized to be issued
Common stock	3,941,800,000
Total	3,941,800,000

###### 2) Total Number of Shares Issued

Class	As of the end of the current fiscal year (December 31, 2016)	As of the submission date (March 30, 2017)	Stock exchange on which the Company is listed	Description
Common stock	1,432,422,600	1,432,515,400	Tokyo Stock Exchange (First Section)	One unit of stock constitutes 100 common stocks.
Total	1,432,422,600	1,432,515,400	—	—

(Note) Number of shares issued as of the submission date of this Annual Securities Report does not include the number of shares issued in association with exercise of subscription warrants and exercise of Share Options between March 1, 2017 and such submission date.

(2) Status of the Share Options

Share options issued pursuant to the Companies Act are as follows:

1) Extraordinary Resolution at General Shareholders' Meeting (March 27, 2008)

	As of the end of fiscal year (December 31, 2016)	As of the end of month preceding the submission date (February 28, 2017)
Number of Share Options	13,026	12,865
Of the Share Options, the number of own Share Options	7,267	7,267
Class of shares to be issued upon exercise of Share Options	Common stock	Same as on the left
Number of shares to be issued upon exercise of Share Options	1,302,600 (Note 1)	1,286,500 (Note 1)
Cash payment upon exercise of Share Options	¥559 per share (Note 2)	Same as on the left
Exercise period of Share Options	From March 28, 2012 to March 26, 2018	Same as on the left
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	Issue price: ¥841 Amount to be included in capital: ¥421 (Note 4)	Same as on the left
Conditions for exercise of Share Options	(Note 3)	Same as on the left
Matters concerning transfer of Share Options	(Note 6)	Same as on the left
Matters concerning collateral payment	—	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)	Same as on the left

(Notes) 1 Class and number of shares to be issued upon exercise of Share Options (hereinafter referred to as "Issued Shares")

If the Company splits its common stock (including allotment of its common stock without compensation; hereinafter the same shall apply) or consolidates its common stock, the number of shares to be issued upon exercise of each unit of such Share Options shall be adjusted according to the following formula; provided that such adjustment shall be made only to those remain unexercised or uncanceled at the time of such adjustment and; provided, further, that if any fraction less than one share arises as a result of such adjustment, such fraction shall be discarded.

$$\begin{array}{l} \text{Number of Issued} \\ \text{Shares after} \\ \text{adjustment} \end{array} = \begin{array}{l} \text{Number of Issued} \\ \text{Shares before} \\ \text{adjustment} \end{array} \times \text{Ratio of split or consolidation}$$

In addition, if the Company carries out a merger, a company split, share exchange, share transfer, etc. that makes it necessary to adjust the number of shares, the number of Issued Shares shall be adjusted within a reasonable range, taking into account the conditions of the merger, company split, share exchange, share transfer, etc.2 Value of the assets to be contributed upon exercise of Share OptionsIf the Company splits its common stock or consolidates its common stock after the date of issuance of Share Options, exercise price shall be adjusted according to the following formula. Any fraction less than ¥1 as a result of such adjustment shall be rounded up.

$$\begin{array}{l} \text{Exercise price} \\ \text{after adjustment} \end{array} = \begin{array}{l} \text{Exercise price} \\ \text{before adjustment} \end{array} \times \frac{1}{\text{Ratio of split or consolidation}}$$

Furthermore, in the event of issuance of common stock or disposal of treasury stock at price below market value after the date of issuance of Share Options (except those associated with the exercise of Share Options, or those associated with the exercise of

Share Options in accordance with provisions of Article 280-19 of the Commercial Code prior to its amendment on April 1, 2002, or those associated with the exercise of subscription warrants on bond in accordance with the provisions of Article 341-8 of the said Code), exercise price shall be adjusted according to the following formula. Any fraction less than ¥1 as a result of such adjustment shall be rounded up. In other cases of issuance of Share Options (insofar as price of the shares issued in association with the exercise of such options is below the market value at the time of issuance of the Share Options), exercise price shall be adjusted likewise.

Number of shares issued in the following formula shall refer to the total number of shares issued in the Company less the number of treasury stocks held by the Company.

$$\begin{array}{r} \text{Exercise} \\ \text{price} \\ \text{after} \\ \text{adjustment} \end{array} = \begin{array}{r} \text{Exercise} \\ \text{price} \\ \text{before} \\ \text{adjustment} \end{array} \times \frac{\begin{array}{r} \text{Number of shares} \\ \text{issued} \end{array} + \frac{\begin{array}{r} \text{Number of shares newly issued} \times \\ \text{Cash payment per share} \\ \hline \text{Share price prior to new issuance} \end{array}}{\begin{array}{r} \text{Number of shares issued} + \text{number of shares newly issued} \end{array}}$$

Besides the above, in case the Company carries out a merger, etc., or according as other such circumstances that make it necessary to adjust the Exercise Price after issuance, the Exercise Price may be adjusted as appropriate within a necessary and reasonable range.

### 3 Conditions for exercise of Share Options

- 1) Those who received the allotment of the issue of Share Options shall remain Directors, Executive Officers, Company Auditors or employees of the Company, or its subsidiaries or affiliates at the time of exercising such rights, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
- 2) Share Options shall not be inherited, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
- 3) Share Options shall not be offered for pledge or disposed of in any other way.
- 4) Other conditions for the exercise shall be subject to the provision of the agreement on allotment of Share Options, concluded between the Company and holders of Share Options, based on the resolution at the meeting of the Board Directors on issuance of Share Options.
  - 4 Matters concerning increase in capital stock and capital reserve by issuing of shares upon exercise of Share Options
    - 1) Amount of increase in capital stock by issuing shares upon exercise of Share Options shall be half of the upper limit of capital increase as calculated pursuant to the provisions of Article 17, Paragraph 1 of the Ordinance on Accounting of Companies, where any resultant fraction less than one yen shall be rounded up.
    - 2) Amount of increase in capital reserve by issuing shares upon exercise of Share Options shall be the upper limit of capital stock increase as described in 1) above less the amount of increase in capital stock set out therein.

### 5 Reasons and conditions for the acquisition of Share Options

- 1) In case that the proposal of any merger agreement under which the Company is dissolved, or any absorption-type company split (kyushu-bunkatsu) agreement or incorporation-type company split (shinsetsu-bunkatsu) plan in which the Company will be a splitting company, or any share exchange agreement or share transfer plan in which the Company will be a wholly owned subsidiary of another company is approved at a General Shareholders' Meeting of the Company, the Company may acquire Share Options at the date specifically determined by the Board of Directors of the Company without any compensation therefor.
- 2) In case that Holders of Share Options ceases to accommodate the conditions of 4 1) above before exercising Share Options, the Company may acquire such Share Options at the date specifically determined by the Board of Directors of the Company without any compensation therefor.

### 6 Restriction on Transfer

Transfer of Share Options requires approval by the Board of Directors of the Succeeding Company.

### 7 Treatment of Share Options in the event of organizational restructuring

In the event share exchange or share transfer in which the Company becomes a wholly owned subsidiary, obligations based on the Share Options shall be succeeded by the company which becomes the Company's wholly-owning parent as a result of such share exchange or share transfer (hereinafter referred to as "Succeeding Company"). Policy for

determining the contents of Share Options to be succeeded shall be as follows.

- 1) Class of Shares to be Issued  
Shares in the Succeeding Company of the same class as the common stocks in the Company.
- 2) Number of Shares to be Issued  
This shall be calculated by multiplying the number of shares to be issued upon the exercise of Share Options by the number of shares in the Succeeding Company allotted to one share in the Company at the time of share exchange or share transfer (hereinafter referred to as "Share Allotment Ratio"). Any fraction less than one share shall be rounded up.
- 3) Exercise Price  
This shall be the amount calculated by dividing the cash payment at the time of exercise of the Share Options by the Share Allotment Ratio. Any fraction less than ¥1 shall be rounded up.
- 4) Exercise Period  
This shall be the exercise period of these Share Options. In the event that such exercise period has already started at the time of the succession, it shall start on the effective date of the share exchange or share transfer, and shall end on the expiry date of such exercise period.
- 5) Conditions for Exercise  
This shall be determined in accordance with the conditions for the exercise of these Share Options.
- 6) Reasons and Conditions for Cancellation  
This shall be determined in accordance with the reasons of and conditions for the cancellation of these Share Options.
- 7) Restriction on Transfer  
Transfer of Share Options requires approval by the Board of Directors of the Succeeding Company.
- 8 Rules pertaining to fractions of less than one share arising from the exercise of Share Options  
Fractions of less than one share in the number of shares to be delivered to holders of Share Options who exercised Share Options shall be discarded.

2) Extraordinary Resolution at General Shareholders' Meeting (March 27, 2009)

	As of the end of fiscal year (December 31, 2016)	As of the end of month preceding the submission date (February 28, 2017)
Number of Share Options	6,163	6,083
Of the Share Options, the number of own Share Options	3,263	3,266
Class of shares to be issued upon exercise of Share Options	Common stock	Same as on the left
Number of shares to be issued upon exercise of Share Options	616,300 (Note 1)	608,300 (Note 1)
Cash payment upon exercise of Share Options	¥701 per share (Note 2)	Same as on the left
Exercise period of Share Options	From March 28, 2013 to March 26, 2019	Same as on the left
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	Issue price: ¥1,029 Amount to be included in capital: ¥515 (Note 4)	Same as on the left
Conditions for exercise of Share Options	(Note 3)	Same as on the left
Matters concerning transfer of Share Options	(Note 6)	Same as on the left
Matters concerning collateral payment	—	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)	Same as on the left

(Notes) 1 Class and number of shares to be issued upon exercise of Share Options (hereinafter referred to as "Issued Shares")

If the Company splits its common stock (including allotment of its common stock without compensation; hereinafter the same shall apply) or consolidates its common stock, the number of shares to be issued upon exercise of each unit of such Share Options shall be adjusted according to the following formula; provided that such adjustment shall be made only to those remain unexercised or uncanceled at the time of such adjustment and; provided, further, that if any fraction less than one share arises as a result of such adjustment, such fraction shall be discarded.

$$\text{Number of Issued Shares after adjustment} = \text{Number of Issued Shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, if the Company carries out a merger, a company split, share exchange, share transfer, etc. that makes it necessary to adjust the number of shares, the number of Issued Shares shall be adjusted within a reasonable range, taking into account the conditions of the merger, company split, share exchange, share transfer, etc.

2 Value of the assets to be contributed upon exercise of Share Options

If the Company splits its common stock or consolidates its common stock after the date of issuance of Share Options, exercise price shall be adjusted according to the following formula. Any fraction less than ¥1 as a result of such adjustment shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

Furthermore, in the event of issuance of common stock or disposal of treasury stock at price below market value after the date of issuance of Share Options (except those associated with the exercise of Share Options, or those associated with the exercise of Share Options in accordance with provisions of Article 280-19 of the Commercial Code

prior to its amendment on April 1, 2002, or those associated with the exercise of subscription warrants on bond in accordance with the provisions of Article 341-8 of the said Code), exercise price shall be adjusted according to the following formula. Any fraction less than ¥1 as a result of such adjustment shall be rounded up. In other cases of issuance of Share Options (insofar as price of the shares issued in association with the exercise of such options is below the market value at the time of issuance of the Share Options), exercise price shall be adjusted likewise.

Number of shares issued in the following formula shall refer to the total number of shares issued in the Company less the number of treasury stocks held by the Company.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{\text{Number of shares issued} + \frac{\text{Number of shares newly issued} \times \text{Cash payment per share}}{\text{Share price prior to new issuance}}}{\text{Number of shares issued} + \text{number of shares newly issued}}$$

Besides the above, in case the Company carries out a merger, etc., or according as other such circumstances that make it necessary to adjust the Exercise Price after issuance, the Exercise Price may be adjusted as appropriate within a necessary and reasonable range.

### 3 Conditions for exercise of Share Options

- 1) Those who received the allotment of the issue of Share Options shall remain Directors, Executive Officers, Company Auditors or employees of the Company, or its subsidiaries or affiliates at the time of exercising such rights, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
- 2) Share Options shall not be inherited, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
- 3) Share Options shall not be offered for pledge or disposed of in any other way.
- 4) Other conditions for the exercise shall be subject to the provision of the agreement on allotment of Share Options, concluded between the Company and holders of Share Options, based on the resolution at the meeting of the Board Directors on issuance of Share Options.

### 4 Matters concerning increase in capital stock and capital reserve by issuing of shares upon exercise of Share Options

- 1) Amount of increase in capital stock by issuing shares upon exercise of Share Options shall be half of the upper limit of capital increase as calculated pursuant to the provisions of Article 17, Paragraph 1 of the Ordinance on Accounting of Companies, where any resultant fraction less than one yen shall be rounded up.
- 2) Amount of increase in capital reserve by issuing shares upon exercise of Share Options shall be the upper limit of capital stock increase as described in 1) above less the amount of increase in capital stock set out therein.

### 5 Reasons and conditions for the acquisition of Share Options

- 1) In case that the proposal of any merger agreement under which the Company is dissolved, or any absorption-type company split (kyushu-bunkatsu) agreement or incorporation-type company split (shinsetsu-bunkatsu) plan in which the Company will be a splitting company, or any share exchange agreement or share transfer plan in which the Company will be a wholly owned subsidiary of another company is approved at a General Shareholders' Meeting of the Company, the Company may acquire Share Options at the date specifically determined by the Board of Directors of the Company without any compensation therefor.
- 2) In case that Holders of Share Options ceases to accommodate the conditions of 4 1) above before exercising Share Options, the Company may acquire such Share Options at the date specifically determined by the Board of Directors of the Company without any compensation therefor.

### 6 Restriction on Transfer

Transfer of Share Options requires approval by the Board of Directors of the Succeeding Company.

### 7 Treatment of Share Options in the event of organizational restructuring

In the event share exchange or share transfer in which the Company becomes a wholly owned subsidiary, obligations based on the Share Options shall be succeeded by the company which becomes the Company's wholly-owning parent as a result of such share exchange or share transfer (hereinafter referred to as "Succeeding Company"). Policy for determining the contents of Share Options to be succeeded shall be as follows.

- 1) Class of Shares to be Issued  
Shares in the Succeeding Company of the same class as the common stocks in the Company.
- 2) Number of Shares to be Issued  
This shall be calculated by multiplying the number of shares to be issued upon the exercise of Share Options by the number of shares in the Succeeding Company allotted to one share in the Company at the time of share exchange or share transfer (hereinafter referred to as "Share Allotment Ratio"). Any fraction less than one share shall be rounded up.
- 3) Exercise Price  
This shall be the amount calculated by dividing the cash payment at the time of exercise of the Share Options by the Share Allotment Ratio. Any fraction less than ¥1 shall be rounded up.
- 4) Exercise Period  
This shall be the exercise period of these Share Options. In the event that such exercise period has already started at the time of the succession, it shall start on the effective date of the share exchange or share transfer, and shall end on the expiry date of such exercise period.
- 5) Conditions for Exercise  
This shall be determined in accordance with the conditions for the exercise of these Share Options.
- 6) Reasons and Conditions for Cancellation  
This shall be determined in accordance with the reasons of and conditions for the cancellation of these Share Options.
- 7) Restriction on Transfer  
Transfer of Share Options requires approval by the Board of Directors of the Succeeding Company.
- 8 Rules pertaining to fractions of less than one share arising from the exercise of Share Options  
Fractions of less than one share in the number of shares to be delivered to holders of Share Options who exercised Share Options shall be discarded.

3), 4) Extraordinary Resolution at General Shareholders' Meeting (March 29, 2012)

	As of the end of fiscal year (December 31, 2016)		As of the end of month preceding the submission date (February 28, 2017)	
Number of Share Options	2,450	670	2,366	651
Of the Share Options, the number of own Share Options	1,132	223	1,132	223
Class of shares to be issued upon exercise of Share Options	Common stock		Same as on the left	
Number of shares to be issued upon exercise of Share Options	245,000 (Note 1)	67,000 (Note 1)	236,600 (Note 1)	65,100 (Note 1)
Cash payment upon exercise of Share Options	¥1 per share (Note 2)	¥1 per share (Note 2)	Same as on the left	
Exercise period of Share Options	From March 30, 2016 to March 28, 2022 (Note 3)		Same as on the left	
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	Issue price: ¥815 Amount to be included in capital: ¥408 (Note 5)	Issue price: ¥770 Amount to be included in capital: ¥385 (Note 5)	Same as on the left	
Conditions for exercise of Share Options	(Note 4)		Same as on the left	
Matters concerning transfer of Share Options	(Note 7)		Same as on the left	
Matters concerning collateral payment	—		—	



Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 8)	Same as on the left
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(Notes) 1 Class and number of shares to be issued upon exercise of Share Options (hereinafter referred to as "Issued Shares")

If the Company splits its common stock (including allotment of its common stock without compensation; hereinafter the same shall apply) or consolidates its common stock, the number of shares to be issued upon exercise of each unit of such Share Options shall be adjusted according to the following formula; provided that such adjustment shall be made only to those remain unexercised or uncanceled at the time of such adjustment and; provided, further, that if any fraction less than one share arises as a result of such adjustment, such fraction shall be discarded.

$$\begin{array}{l} \text{Number of Issued} \\ \text{Shares after} \\ \text{adjustment} \end{array} = \begin{array}{l} \text{Number of Issued} \\ \text{Shares before} \\ \text{adjustment} \end{array} \times \text{Ratio of split or consolidation}$$

In addition, if the Company carries out a merger, a company split, share exchange, share transfer, etc. that makes it necessary to adjust the number of shares, the number of Issued Shares shall be adjusted within a reasonable range, taking into account the conditions of the merger, company split, share exchange, share transfer, etc.

2 Value of the assets to be contributed upon exercise of Share Options

This shall be the amount calculated by multiplying the cash payment per share issued as a result of the exercise (including the transfer of treasury stock as substitute for such issue; hereinafter the same) of each Share Option (hereinafter referred to as "Exercise Price") by the number of shares to be issued upon exercise of the Share Options.

Exercise Price shall be ¥1 per share. If the Company splits its common stock or consolidates its common stock after the issue date, Exercise Price shall be adjusted according to the following formula. Any fraction less than ¥1 per Share Option as a result of such adjustment shall be rounded up.

$$\begin{array}{l} \text{Exercise price} \\ \text{after adjustment} \end{array} = \begin{array}{l} \text{Exercise price} \\ \text{before adjustment} \end{array} \times \frac{1}{\text{Ratio of split or consolidation}}$$

Besides the above, in case the Company carries out a merger, etc., or according as other such circumstances that make it necessary to adjust the Exercise Price after issuance, the Exercise Price may be adjusted as appropriate within a necessary and reasonable range.

3 Exercise period of Share Options

Exercise period of Share Options shall be from March 30, 2016 to March 28, 2022. If the final day of the exercise period falls on a holiday of the Company, the final day shall be the working day immediately preceding the final day.

4 Conditions for exercise of Share Options

1) Those who received the allotment of the issue of Share Options shall remain Directors, Executive Officers, Company Auditors or employees of the Company, or its subsidiaries or affiliates at the time of exercising such rights, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.

2) Share Options shall not be inherited, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.

3) Share Options shall not be offered for pledge or disposed of in any other way.

5 Matters concerning increase in capital stock and capital reserve by issuing of shares upon exercise of Share Options

1) Amount of increase in capital stock by issuing shares upon exercise of Share Options shall be half of the upper limit of capital increase as calculated pursuant to the provisions of Article 17, Paragraph 1 of the Ordinance on Accounting of Companies, where any resultant fraction less than one yen shall be rounded up.

2) Amount of increase in capital reserve by issuing shares upon exercise of Share Options shall be the upper limit of capital stock increase as described in 1) above less the amount of increase in capital stock set out therein.

## 6 Reasons and conditions for the acquisition of Share Options

- 1) In case that the proposal of any merger agreement under which the Company is dissolved, or any absorption-type company split (kyushu-bunkatsu) agreement or incorporation-type company split (shinsetsu-bunkatsu) plan in which the Company will be a splitting company, or any share exchange agreement or share transfer plan in which the Company will be a wholly owned subsidiary of another company is approved at a General Shareholders' Meeting of the Company, the Company may acquire Share Options at the date specifically determined by the Board of Directors of the Company without any compensation therefor.
- 2) In case that Holders of Share Options ceases to accommodate the conditions of 4 1) above before exercising Share Options, the Company may acquire such Share Options at the date specifically determined by the Board of Directors of the Company without any compensation therefor.

## 7 Restriction on the acquisition of Share Options by transfer

Any acquisition of Share Options by transfer shall require an approval of the Board of Directors of the Company by its resolution.

## 8 In the event the Company merges (limited to cases where the Company becomes a dissolving company), performs an absorption-type company split or an incorporation-type company split, or conducts a share exchange or a share transfer (hereinafter collectively referred to as "Organizational Restructuring"), Share Options of a corporation that survives after the merger, a corporation incorporated as a result of the merger, a corporation that succeeds, whole or part, to any rights and obligations that the Company holds in connection with its business as a result of an absorption-type company split, a corporation incorporated as a result of the incorporation-type company split, a corporation that acquires all of the issued shares of the Company effecting the share exchange, or a corporation incorporated as a result of the share transfer (hereinafter referred to as "Restructured Company") shall be delivered under the following conditions to each those who received the allotment of the issue of Share Options remaining unexercised (hereinafter referred to as "Remaining Share Options") at the time when Organizational Restructuring takes effect. In this case, the Remaining Share Options will lapse and the Restructured Company will issue new Share Options. However, the foregoing shall apply only to cases in which the delivery of Share Options of the Restructured Company according to the following conditions is stipulated in the merger agreement, the absorption-type company split agreement, the incorporation-type company split plan, the share exchange agreement or the share transfer plan.

### 1) Number of Share Options of the Restructured Company to be delivered

The Restructured Company shall deliver Share Options, the number of which shall equal the number of Share Options held by the holder of the Remaining Share Options.

### 2) Class of shares of the Restructured Company to be issued upon the exercise of Share Options

Shares of common stock of the Restructured Company

### 3) Number of shares of the Restructured Company to be issued upon the exercise of Share Options

To be decided according to 1 above after taking into consideration the conditions, etc. of the Organizational Restructuring.

### 4) Value of the assets to be contributed upon the exercise of Share Options

The value of the assets to be contributed upon the exercise of each Share Option granted shall be the amount paid per share after restructuring obtained by adjusting the Exercise Price stipulated in 2 above after taking into consideration the conditions, etc. of Organizational Restructuring multiplied by the number of shares of the Restructured Company to be issued upon the exercise of the Share Options as determined in accordance with 3) above.

### 5) Exercise period of Share Options

Starting from the later of either the first date of the exercise period of Share Options as stipulated in 3 above, or the date on which the Organizational Restructuring becomes effective and ending on the expiration date for the exercise of Share Options as stipulated in 3 above.

- 6) Matters concerning increase in capital stock and capital reserve to be increased by issuing of shares by the Restructured Company upon the exercise of Share Options  
To be determined in accordance with 5 above.
- 7) Restriction on acquisition of Share Options by transfer  
Acquisition of Share Options by transfer shall be subject to the approval of the Board of Directors of the Company under Organizational Restructuring (or by the majority decision of Directors if such company is not a company with Board of Directors).
- 8) Reason and conditions for acquisition of Share Options  
To be determined in accordance with 6 above.
- 9) Rules pertaining to fractions of less than one share arising from the exercise of Share Options  
Fractions of less than one share in the number of shares to be delivered to holders of Share Options who exercised Share Options shall be discarded.

5), 6) Extraordinary Resolution at General Shareholders' Meeting (March 29, 2012)

	As of the end of fiscal year (December 31, 2016)		As of the end of month preceding the submission date (February 28, 2017)	
Number of Share Options	1	10,069	1	9,734
Of the Share Options, the number of own Share Options	1	3,994	1	3,993
Class of shares to be issued upon exercise of Share Options	Common stock		Same as on the left	
Number of shares to be issued upon exercise of Share Options	100 (Note 1)	1,006,900 (Note 1)	100 (Note 1)	973,400 (Note 1)
Cash payment upon exercise of Share Options	¥1 per share (Note 2)	¥1 per share (Note 2)	Same as on the left	
Exercise period of Share Options	From March 30, 2016 to March 28, 2022 (Note 3)		Same as on the left	
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	Issue price: ¥770 Amount to be included in capital: ¥385 (Note 5)	Issue price: ¥835 Amount to be included in capital: ¥418 (Note 5)	Same as on the left	
Conditions for exercise of Share Options	(Note 4)		Same as on the left	
Matters concerning transfer of Share Options	(Note 7)		Same as on the left	
Matters concerning collateral payment	—		—	
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 8)		Same as on the left	

(Notes) 1 to 9 Same as Notes 1 to 9 of the Share Options of 3), 4) Extraordinary Resolution at General Shareholders' Meeting (March 29, 2012).

7) Extraordinary Resolution at General Shareholders' Meeting (March 29, 2012)

	As of the end of fiscal year (December 31, 2016)	As of the end of month preceding the submission date (February 28, 2017)
Number of Share Options	1,601	1,601
Of the Share Options, the number of own Share Options	1,566	1,566
Class of shares to be issued upon exercise of Share Options	Common stock	Same as on the left
Number of shares to be issued upon exercise of Share Options	160,100 (Note 1)	160,100 (Note 1)
Cash payment upon exercise of Share Options	¥1 per share (Note 2)	Same as on the left
Exercise period of Share Options	A. One third of granted options From April 20, 2014 to April 20, 2022 B. One third of granted options From April 20, 2015 to April 20, 2022 C. One third of granted options From April 20, 2016 to April 20, 2022 (Note 3)	Same as on the left
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	A. Issue price: ¥889 Amount to be included in capital: ¥445 B. Issue price: ¥886 Amount to be included in capital: ¥443 C. Issue price: ¥884 Amount to be included in capital: ¥442 (Note 5)	Same as on the left
Conditions for exercise of Share Options	(Note 4)	Same as on the left
Matters concerning transfer of Share Options	(Note 7)	Same as on the left
Matters concerning collateral payment	—	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 8)	Same as on the left

(Notes) 1 Class and number of shares to be issued upon exercise of Share Options (hereinafter referred to as "Issued Shares")

If the Company splits its common stock (including allotment of its common stock without compensation; hereinafter the same shall apply) or consolidates its common stock, the number of shares to be issued upon exercise of each unit of such Share Options shall be adjusted according to the following formula; provided that such adjustment shall be made only to those remain unexercised or uncanceled at the time of such adjustment and; provided, further, that if any fraction less than one share arises as a result of such adjustment, such fraction shall be discarded.

$$\text{Number of Issued Shares after adjustment} = \frac{\text{Number of Issued Shares before adjustment}}{\text{Ratio of split or consolidation}}$$

In addition, if the Company carries out a merger, a company split, share exchange, share transfer, etc. that makes it necessary to adjust the number of shares, the number of Issued Shares shall be adjusted within a reasonable range, taking into account the conditions of the merger, company split, share exchange, share transfer, etc.

## 2 Value of the assets to be contributed upon exercise of Share Options

This shall be the amount calculated by multiplying the cash payment per share issued as a result of the exercise (including the transfer of treasury stock as substitute for such issue; hereinafter the same) of each Share Option (hereinafter referred to as "Exercise Price") by the number of shares to be issued upon exercise of the Share Options.

Exercise Price shall be ¥1 per share. If the Company splits its common stock or consolidates its common stock after the issue date, Exercise Price shall be adjusted according to the following formula. Any fraction less than ¥1 per Share Option as a result of such adjustment shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

Besides the above, in case the Company carries out a merger, etc., or according as other such circumstances that make it necessary to adjust the Exercise Price after issuance, the Exercise Price may be adjusted as appropriate within a necessary and reasonable range.

## 3 Exercise period of Share Options

Exercise period of Share Options shall be from the second year through to the tenth year of the day of the granting and allotting. If the final day of the exercise period falls on a holiday of the Company, the final day shall be the working day immediately preceding the final day.

## 4 Conditions for exercise of Share Options

1) Those who received the allotment of issue of Share Options may exercise all or a part of the stock options in accordance with the following classifications:

- (i) Those who received the allotment of issue of Share Options may not exercise any of the Share Options allotted to him/her from Issue Date to the date immediately preceding the second year of the Issue Date.
- (ii) Those who received the allotment of issue of Share Options may exercise one-third of the Share Options allotted to him/her from the second year of the Issue Date to the date immediately preceding the third year of the Issue Date (in calculating the number of Share Options that would have become exercisable, any fraction less than one shall be rounded down).
- (iii) Those who received the allotment of issue of Share Options may exercise two-thirds (However, if a part of the Share Options allotted is exercised by the third year, exercisable Share Options shall be within two-thirds of the allotted Share Options, including the already exercised Share Options) of the Share Options allotted to him/her from the third year of the Issue Date to the date immediately preceding the fourth year of the Issue Date (in calculating the number of Share Options that would have become exercisable, any fraction less than one shall be rounded down).
- (iv) Those who received the allotment of issue of Share Options may exercise all the Share Options allotted to him/her from the fourth year of the Issue Date through to the tenth year of the Issue Date.

2) Those who received the allotment of issue of Share Options shall remain Directors, Executive Officers, Company Auditors or employees of the Company, or its subsidiaries or affiliates at the time of exercising such rights; provided however that, this shall not apply to cases where (i) those who received the allotment of the issue of Share Options exercise Share Options which are exercisable at the time of the termination of delegation or employment relationship (including a case where those who received the allotment of the issue of Share Options have passed away) between them and the Company's overseas subsidiaries or affiliates with which they primarily have said delegation or employment relationship within 30 days from such termination, or (ii) it is allowed as an exceptional case by the Board of Directors in consideration of circumstances.

In addition, allotted Share Options which are not then exercisable shall not be exercised thereafter: (a) in cases where those who received the allotment of the issue of Share Options retire or leave the Company of their own accord; those who received

the allotment of the issue of Share Options are dismissed or displaced by Kobo Inc. due to reasons imputable to them under the governing law for its incorporation; or delegation or employment relationship between those who received the allotment of the issue of Share Options and Kobo Inc. terminated due to death of those who received the allotment of the issue of Share Options, permanent invalidity which disables them to continue to execute their duties for Kobo Inc. or an affiliate under the governing law for its incorporation, or mandatory retirement, (b) in cases where those who received the allotment of the issue of Share Options retire or leave the Company of their own accord because significant disadvantageous changes in the basic terms of the delegation or employment contract are unilaterally imposed on them by Kobo Inc. or an affiliate thereof under the governing law for its incorporation, those who received the allotment of the issue of Share Options, notwithstanding the provision in 1), may also exercise their rights with respect to allotted Share Options to the extent of the number obtained by multiplying the ratio of the period from the anniversary date of the Issue Date (hereinafter referred to as "Commencement Date") to the date of the retirement or leaving of the company (hereinafter referred to as "Date of Leaving") against the one-year period which includes the Date of Leaving and commences on the Commencement Date by the number of Share Options that would have become exercisable pursuant to the provision in 1) at the time when the said one-year period has elapsed (However, in cases where those who received the allotment of the issue of Share Options retire or leave the Company on or before the second anniversary date of the Issue Date, those who received the allotment of the issue of Share Options may exercise their rights with respect to allotted Share Options to the extent of the number obtained by multiplying the ratio of the period from the Issue Date to the Date of Leaving against the two-year period by the number of Share Options that would have become exercisable pursuant to the provision in 1) (ii) on the second year of the date of the Issue Date) (in calculating the number of Share Options that would have become exercisable, any fraction less than one shall be rounded down) (However, those who received the allotment of the issue of Share Options shall exercise Share Options within 30 days from the date of the termination of delegation or employment relationship with Kobo Inc.), and (c) in cases where those who received the allotment of the issue of Share Options are dismissed or displaced by Kobo Inc. despite the lack of reasons imputable to them under the governing law for its incorporation, those who received the allotment of the issue of Share Options may, notwithstanding the provision in 1), exercise all of allotted Share Options that are held at the time of receiving the notification of dismissal or displacement (However, those who received the allotment of the issue of Share Options shall exercise Share Options within 30 days from the date of the termination of delegation or employment relationship with Kobo Inc.).

- 3) Notwithstanding the provisions of 1) above, in the event of a sale of all or substantially all of the assets of the business of Kobo Inc. to a third party other than the Company or an affiliate of Kobo Inc. under the governing law for its incorporation, or in the event of a reorganization, such as merger (except for reorganization carried out by solely involving Kobo Inc. and one or more of its affiliates under the governing law for its incorporation), with respect to which all or substantially all of the persons who were the beneficial owners of the common shares of Kobo Inc. immediately prior to such transaction do not, following such transaction, beneficially own directly or indirectly, more than 50% of the resulting voting rights of all shareholders of Kobo Inc. (including all the voting rights of Kobo Inc. or other similar rights which may be issued or transferred as a result of the exercising of the Share Options of Kobo Inc.), the holder of the Share Options may exercise all the rights he/she holds at the time of such event, provided that such Share Options are exercised immediately before such event comes into force.
- 4) Share Options shall not be inherited, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
- 5) Share Options shall not be offered for pledge or disposed of in any other way.

- 5 Matters concerning increase in capital stock and capital reserve by issuing of shares upon exercise of Share Options
  - 1) Amount of increase in capital stock by issuing shares upon exercise of Share Options shall be half of the upper limit of capital increase as calculated pursuant to the provisions of Article 17, Paragraph 1 of the Ordinance on Accounting of Companies, where any resultant fraction less than one yen shall be rounded up.
  - 2) Amount of increase in capital reserve by issuing shares upon exercise of Share Options shall be the upper limit of capital stock increase as described in 1) above less the amount of increase in capital stock set out therein.
- 6 Reasons and conditions for the acquisition of Share Options
  - 1) In case that the proposal of any merger agreement under which the Company is dissolved, or any absorption-type company split (kyushu-bunkatsu) agreement or incorporation-type company split (shinsetsu-bunkatsu) plan in which the Company will be a splitting company, or any share exchange agreement or share transfer plan in which the Company will be a wholly owned subsidiary of another company is approved at a General Shareholders' Meeting of the Company, the Company may acquire Share Options at the date specifically determined by the Board of Directors of the Company without any compensation therefor.
  - 2) In case that Holders of Share Options ceases to accommodate the conditions of 4 2) above before exercising Share Options, the Company may acquire such Share Options at the date specifically determined by the Board of Directors of the Company without any compensation therefor.
- 7 Restriction on the acquisition of Share Options by transfer
 

Any acquisition of Share Options by transfer shall require an approval of the Board of Directors of the Company by its resolution.
- 8 In the event the Company merges (limited to cases where the Company becomes a dissolving company), performs an absorption-type company split or an incorporation-type company split, or conducts a share exchange or a share transfer (hereinafter collectively referred to as "Organizational Restructuring"), Share Options of a corporation that survives after the merger, a corporation incorporated as a result of the merger, a corporation that succeeds, whole or part, to any rights and obligations that the Company holds in connection with its business as a result of an absorption-type company split, a corporation incorporated as a result of the incorporation-type company split, a corporation that acquires all of the issued shares of the Company effecting the share exchange, or a corporation incorporated as a result of the share transfer (hereinafter referred to as "Restructured Company") shall be delivered under the following conditions to each those who received the allotment of the issue of Share Options remaining unexercised (hereinafter referred to as "Remaining Share Options") at the time when Organizational Restructuring takes effect. In this case, the Remaining Share Options will lapse and the Restructured Company will issue new Share Options. However, the foregoing shall apply only to cases in which the delivery of Share Options of the Restructured Company according to the following conditions is stipulated in the merger agreement, the absorption-type company split agreement, the incorporation-type company split plan, the share exchange agreement or the share transfer plan.
  - 1) Number of Share Options of the Restructured Company to be delivered
 

The Restructured Company shall deliver Share Options, the number of which shall equal the number of Share Options held by the holder of the Remaining Share Options.
  - 2) Class of shares of the Restructured Company to be issued upon the exercise of Share Options
 

Shares of common stock of the Restructured Company
  - 3) Number of shares of the Restructured Company to be issued upon the exercise of Share Options
 

To be decided according to 1 above after taking into consideration the conditions, etc. of the Organizational Restructuring.
  - 4) Value of the assets to be contributed upon the exercise of Share Options
 

The value of the assets to be contributed upon the exercise of each Share Option granted shall be the amount paid per share after restructuring obtained by adjusting



the Exercise Price stipulated in 2 above after taking into consideration the conditions, etc. of Organizational Restructuring multiplied by the number of shares of the Restructured Company to be issued upon the exercise of the Share Options as determined in accordance with 3) above.

5) Exercise period of Share Options

Starting from the later of either the first date of the exercise period of Share Options as stipulated in 3 above, or the date on which the Organizational Restructuring becomes effective and ending on the expiration date for the exercise of Share Options as stipulated in 3 above.

6) Matters concerning increase in capital stock and capital reserve to be increased by issuing of shares by the Restructured Company upon the exercise of Share Options  
To be determined in accordance with 5 above.

7) Restriction on acquisition of Share Options by transfer

Acquisition of Share Options by transfer shall be subject to the approval of the Board of Directors of the Company under Organizational Restructuring (or by the majority decision of Directors if such company is not a company with Board of Directors).

8) Reason and conditions for acquisition of Share Options

To be determined in accordance with 6 above.

9 Rules pertaining to fractions of less than one share arising from the exercise of Share Options

Fractions of less than one share in the number of shares to be delivered to holders of Share Options who exercised Share Options shall be discarded.

8) Extraordinary Resolution at General Shareholders' Meeting (March 29, 2012)

	As of the end of fiscal year (December 31, 2016)	As of the end of month preceding the submission date (February 28, 2017)
Number of Share Options	3,419	3,316
Of the Share Options, the number of own Share Options	1,089	1,089
Class of shares to be issued upon exercise of Share Options	Common stock	Same as on the left
Number of shares to be issued upon exercise of Share Options	341,900 (Note 1)	331,600 (Note 1)
Cash payment upon exercise of Share Options	¥1 per share (Note 2)	Same as on the left
Exercise period of Share Options	From March 30, 2016 to March 28, 2022	Same as on the left
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	Issue price: ¥792 Amount to be included in capital: ¥396 (Note 5)	Same as on the left
Conditions for exercise of Share Options	(Note 4)	Same as on the left
Matters concerning transfer of Share Options	(Note 7)	Same as on the left
Matters concerning collateral payment	—	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 8)	Same as on the left

(Notes) 1 to 9 Same as Notes 1 to 9 of the Share Options of 3), 4) Extraordinary Resolution at General Shareholders' Meeting (March 29, 2012).

9), 10) Extraordinary Resolution at General Shareholders' Meeting (March 28, 2013)

	As of the end of fiscal year (December 31, 2016)		As of the end of month preceding the submission date (February 28, 2017)	
Number of Share Options	11,463	120	11,463	120
Of the Share Options, the number of own Share Options	3,752	120	3,846	120
Class of shares to be issued upon exercise of Share Options	Common stock		Same as on the left	
Number of shares to be issued upon exercise of Share Options	1,146,300 (Note 1)	12,000 (Note 1)	1,146,300 (Note 1)	12,000 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	¥1 per right	Same as on the left	
Exercise period of Share Options	From March 29, 2017 to March 27, 2023 (Note 2)		Same as on the left	
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	Issue price: ¥1,187 Amount to be included in capital: ¥594 (Note 4)	Issue price: ¥1,575 Amount to be included in capital: ¥788 (Note 4)	Same as on the left	
Conditions for exercise of Share Options	(Note 3)		Same as on the left	
Matters concerning transfer of Share Options	(Note 6)		Same as on the left	
Matters concerning collateral payment	—		—	
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)		Same as on the left	

(Notes) 1 Class and number of shares to be issued upon exercise of Share Options (hereinafter referred to as "Issued Shares")

100 shares shall be issued for each Share Option. (The number of shares for each Share Option shall be hereinafter referred to as "Number of Shares.")

If the Company splits its common stock (including allotment of its common stock without compensation; hereinafter the same shall apply) or consolidates its common stock, the number of shares to be issued upon exercise of each unit of such Share Options shall be adjusted according to the following formula; provided that such adjustment shall be made only to those remain unexercised or uncanceled at the time of such adjustment and; provided, further, that if any fraction less than one share arises as a result of such adjustment, such fraction shall be discarded.

$$\text{Number of Issued Shares after adjustment} = \frac{\text{Number of Issued Shares before adjustment}}{\text{Ratio of split or consolidation}}$$

In addition, if the Company carries out a merger, a company split, share exchange, share transfer, etc. that makes it necessary to adjust the number of shares, the Number of Issued Shares shall be adjusted within a reasonable range, taking into account the conditions of the merger, company split, share exchange, share transfer, etc.

## 2 Exercise period of Share Options

Exercise period of Share Options shall be from March 29, 2017 to March 27, 2023. If the final day of the exercise period falls on a holiday of the Company, the final day shall be the working day immediately preceding the final day.

## 3 Conditions for exercise of Share Options

- 1) Those who received the allotment of the issue of Share Options shall remain Directors, Executive Officers, Company Auditors or employees of the Company, or its subsidiaries or affiliates at the time of exercising such rights, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
  - 2) Share Options shall not be inherited, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
  - 3) Share Options shall not be offered for pledge or disposed of in any other way.
- ## 4 Matters concerning increase in capital stock and capital reserve by issuing of shares upon exercise of Share Options

- 1) Amount of increase in capital stock by issuing shares upon exercise of Share Options shall be half of the upper limit of capital increase as calculated pursuant to the provisions of Article 17, Paragraph 1 of the Ordinance on Accounting of Companies, where any resultant fraction less than one yen shall be rounded up.
- 2) Amount of increase in capital reserve by issuing shares upon exercise of Share Options shall be the upper limit of capital stock increase as described in 1) above less the amount of increase in capital stock set out therein.

## 5 Reasons and conditions for the acquisition of Share Options

- 1) In case that the proposal of any merger agreement under which the Company is dissolved, or any absorption-type company split (kyushu-bunkatsu) agreement or incorporation-type company split (shinsetsu-bunkatsu) plan in which the Company will be a splitting company, or any share exchange agreement or share transfer plan in which the Company will be a wholly owned subsidiary of another company is approved at a General Shareholders' Meeting of the Company, the Company may acquire Share Options at the date specifically determined by the Board of Directors of the Company without any compensation therefor.
- 2) In case that Holders of Share Options ceases to accommodate the conditions of 3 1) above before exercising Share Options, the Company may acquire such Share Options at the date specifically determined by the Board of Directors of the Company without any compensation therefor.

## 6 Restriction on the acquisition of Share Options by transfer

Any acquisition of Share Options by transfer shall require an approval of the Board of Directors of the Company by its resolution.

- ## 7 In the event the Company merges (limited to cases where the Company becomes a dissolving company), performs an absorption-type company split or an incorporation-type company split, or conducts a share exchange or a share transfer (hereinafter collectively referred to as "Organizational Restructuring"), Share Options of a corporation that survives after the merger, a corporation incorporated as a result of the merger, a corporation that succeeds, whole or part, to any rights and obligations that the Company holds in connection with its business as a result of an absorption-type company split, a corporation incorporated as a result of the incorporation-type company split, a corporation that acquires all of the issued shares of the Company effecting the share exchange, or a corporation incorporated as a result of the share transfer (hereinafter referred to as "Restructured Company") shall be delivered under the following conditions to each those who received the allotment of the issue of Share Options remaining unexercised (hereinafter referred to as "Remaining Share Options") at the time when Organizational Restructuring takes effect. In this case, the Remaining Share Options will lapse and the Restructured Company will issue new Share Options. However, the foregoing shall apply only to cases in which the delivery of Share Options of the Restructured Company according to the following conditions is stipulated in the merger agreement, the absorption-type company split agreement, the incorporation-type company split plan, the

share exchange agreement or the share transfer plan.

1) Number of Share Options of the Restructured Company to be delivered

The Restructured Company shall deliver Share Options, the number of which shall equal the number of Share Options held by the holder of the Remaining Share Options.

2) Class of shares of the Restructured Company to be issued upon the exercise of Share Options

Shares of common stock of the Restructured Company

3) Number of shares of the Restructured Company to be issued upon the exercise of Share Options

To be decided according to 1 above after taking into consideration the conditions, etc. of the Organizational Restructuring.

4) Value of the assets to be contributed upon the exercise of Share Options

The value of the assets to be contributed upon the exercise of each Share Option granted shall be the amount paid per share after restructuring obtained by adjusting the Exercise Price determined by cash payment upon exercise of Share Options after taking into consideration the conditions, etc. of Organizational Restructuring multiplied by the number of shares of the Restructured Company to be issued upon the exercise of the Share Options as determined in accordance with 3) above.

5) Exercise period of Share Options

Starting from the later of either the first date of the exercise period of Share Options as stipulated in 2 above, or the date on which the Organizational Restructuring becomes effective and ending on the expiration date for the exercise of Share Options as stipulated in 2 above.

6) Matters concerning increase in capital stock and capital reserve to be increased by issuing of shares by the Restructured Company upon the exercise of Share Options

To be determined in accordance with 4 above.

7) Restriction on acquisition of Share Options by transfer

Acquisition of Share Options by transfer shall be subject to the approval of the Board of Directors of the Company under Organizational Restructuring (or by the majority decision of Directors if such company is not a company with Board of Directors).

8) Reason and conditions for acquisition of Share Options

To be determined in accordance with 5 above.

8 Rules pertaining to fractions of less than one share arising from the exercise of Share Options

Fractions of less than one share in the number of shares to be delivered to holders of Share Options who exercised Share Options shall be discarded.

11), 12) Extraordinary Resolution at General Shareholders' Meeting (March 28, 2013)

	As of the end of fiscal year (December 31, 2016)		As of the end of month preceding the submission date (February 28, 2017)	
Number of Share Options	8,395	3,876	8,395	3,876
Of the Share Options, the number of own Share Options	2,182	951	2,259	1,120
Class of shares to be issued upon exercise of Share Options	Common stock		Same as on the left	
Number of shares to be issued upon exercise of Share Options	839,500 (Note 1)	387,600 (Note 1)	839,500 (Note 1)	387,600 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	¥1 per right	Same as on the left	
Exercise period of Share Options	From March 29, 2017 to March 27, 2023 (Note 2)		Same as on the left	
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	Issue price: ¥1,675 Amount to be included in capital: ¥838 (Note 4)	Issue price: ¥1,450 Amount to be included in capital: ¥725 (Note 4)	Same as on the left	
Conditions for exercise of Share Options	(Note 3)		Same as on the left	
Matters concerning transfer of Share Options	(Note 6)		Same as on the left	
Matters concerning collateral payment	—		—	
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)		Same as on the left	

(Notes) 1 to 8 Same as Notes 1 to 8 of the Share Options of 9), 10) Extraordinary Resolution at General Shareholders' Meeting (March 28, 2013).

13) Extraordinary Resolution at General Shareholders' Meeting (March 28, 2013)

	As of the end of fiscal year (December 31, 2016)	As of the end of month preceding the submission date (February 28, 2017)
Number of Share Options	4,090	4,090
Of the Share Options, the number of own Share Options	1,453	1,453
Class of shares to be issued upon exercise of Share Options	Common stock	Same as on the left
Number of shares to be issued upon exercise of Share Options	409,000 (Note 1)	409,000 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	Same as on the left
Exercise period of Share Options	From March 29, 2017 to March 27, 2023 (Note 2)	Same as on the left
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	Issue price: ¥1,307 Amount to be included in capital: ¥654 (Note 4)	Same as on the left
Conditions for exercise of Share Options	(Note 3)	Same as on the left
Matters concerning transfer of Share Options	(Note 6)	Same as on the left
Matters concerning collateral payment	—	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)	Same as on the left

(Notes) 1 to 8 Same as Notes 1 to 8 of the Share Options of 9), 10) Extraordinary Resolution at General Shareholders' Meeting (March 28, 2013).

14), 15) Extraordinary Resolution at General Shareholders' Meeting (March 28, 2014)

	As of the end of fiscal year (December 31, 2016)		As of the end of month preceding the submission date (February 28, 2017)	
Number of Share Options	2,810	10,217	2,810	10,217
Of the Share Options, the number of own Share Options	1,210	2,340	1,210	2,441
Class of shares to be issued upon exercise of Share Options	Common stock		Same as on the left	
Number of shares to be issued upon exercise of Share Options	281,000 (Note 1)	1,021,700 (Note 1)	281,000 (Note 1)	1,021,700 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	¥1 per right	Same as on the left	
Exercise period of Share Options	From March 29, 2018 to March 27, 2024 (Note 2)		Same as on the left	
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	Issue price: ¥1,336 Amount to be included in capital: ¥668 (Note 4)	Issue price: ¥1,331 Amount to be included in capital: ¥666 (Note 4)	Same as on the left	
Conditions for exercise of Share Options	(Note 3)		Same as on the left	
Matters concerning transfer of Share Options	(Note 6)		Same as on the left	
Matters concerning collateral payment	—		—	
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)		Same as on the left	

(Notes) 1 Class and number of shares to be issued upon exercise of Share Options (hereinafter referred to as "Issued Shares")

100 shares shall be issued for each Share Option. (The number of shares for each Share Option shall be hereinafter referred to as "Number of Shares.")

If the Company splits its common stock (including allotment of its common stock without compensation; hereinafter the same shall apply) or consolidates its common stock, the number of shares to be issued upon exercise of each unit of such Share Options shall be adjusted according to the following formula; provided that such adjustment shall be made only to those remain unexercised or uncanceled at the time of such adjustment and; provided, further, that if any fraction less than one share arises as a result of such adjustment, such fraction shall be discarded.

$$\text{Number of Issued Shares after adjustment} = \frac{\text{Number of Issued Shares before adjustment}}{\text{Ratio of split or consolidation}}$$

In addition, if the Company carries out a merger, a company split, share exchange, share transfer, etc. that makes it necessary to adjust the number of shares, the Number of Issued Shares shall be adjusted within a reasonable range, taking into account the conditions of the merger, company split, share exchange, share transfer, etc.

2 Exercise period of Share Options

Exercise period of Share Options shall be from March 29, 2018 to March 27, 2024. If the final day of the exercise period falls on a holiday of the Company, the final day shall be the working day immediately preceding the final day.

3 Conditions for exercise of Share Options

1) Those who received the allotment of the issue of Share Options shall remain Directors, Executive Officers, Company Auditors or employees of the Company, or its subsidiaries or affiliates at the time of exercising such rights, provided however that



- exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
- 2) Share Options shall not be inherited, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
  - 3) Share Options shall not be offered for pledge or disposed of in any other way.
  - 4) The Holders of Share Options have duties to pay all taxes (including but not limited to income tax, social security contributions, pensions, and employment insurance premium) specified by laws and regulations in relation to Stock options and shares. In the case where the Company and its subsidiaries and affiliates is obliged to levy income tax, etc., the relevant company obliged to levy income tax, etc. shall be able to levy tax from such Holders of Share Options by the methods listed below.
    - i) Receipt by Cash
    - ii) Appropriation of shares owned by the Holders of Share Options
    - iii) Deduction from salaries, bonuses, etc. of the Holders of Share Options
    - iv) Other methods specified by the Company
- 4 Matters concerning increase in capital stock and capital reserve by issuing of shares upon exercise of Share Options
- 1) Amount of increase in capital stock by issuing shares upon exercise of Share Options shall be half of the upper limit of capital increase as calculated pursuant to the provisions of Article 17, Paragraph 1 of the Ordinance on Accounting of Companies, where any resultant fraction less than one yen shall be rounded up.
  - 2) Amount of increase in capital reserve by issuing shares upon exercise of Share Options shall be the upper limit of capital stock increase as described in 1) above less the amount of increase in capital stock set out therein.
- 5 Reasons and conditions for the acquisition of Share Options
- 1) In case that the proposal of any merger agreement under which the Company is dissolved, or any absorption-type company split (kyushu-bunkatsu) agreement or incorporation-type company split (shinsetsu-bunkatsu) plan in which the Company will be a splitting company, or any share exchange agreement or share transfer plan in which the Company will be a wholly owned subsidiary of another company is approved at a General Shareholders' Meeting of the Company, the Company may acquire Share Options at the date specifically determined by the Board of Directors of the Company without any compensation therefor.
  - 2) In case that Holders of Share Options ceases to accommodate the conditions of 3 1) above before exercising Share Options, the Company may acquire such Share Options at the date specifically determined by the Board of Directors of the Company without any compensation therefor.
- 6 Restriction on the acquisition of Share Options by transfer
- Any acquisition of Share Options by transfer shall require an approval of the Board of Directors of the Company by its resolution.
- 7 In the event the Company merges (limited to cases where the Company becomes a dissolving company), performs an absorption-type company split or an incorporation-type company split, or conducts a share exchange or a share transfer (hereinafter collectively referred to as "Organizational Restructuring"), Share Options of a corporation that survives after the merger, a corporation incorporated as a result of the merger, a corporation that succeeds, whole or part, to any rights and obligations that the Company holds in connection with its business as a result of an absorption-type company split, a corporation incorporated as a result of the incorporation-type company split, a corporation that acquires all of the issued shares of the Company effecting the share exchange, or a corporation incorporated as a result of the share transfer (hereinafter referred to as "Restructured Company") shall be delivered under the following conditions to each those who received the allotment of the issue of Share Options remaining unexercised (hereinafter referred to as "Remaining Share Options") at the time when Organizational Restructuring takes effect. In this case, the Remaining Share Options will lapse and the Restructured Company will issue new Share Options. However, the foregoing shall apply only to cases in which the delivery of Share Options of the Restructured Company according to the following conditions is stipulated in the merger agreement, the

absorption-type company split agreement, the incorporation-type company split plan, the share exchange agreement or the share transfer plan.

1) Number of Share Options of the Restructured Company to be delivered

The Restructured Company shall deliver Share Options, the number of which shall equal the number of Share Options held by the holder of the Remaining Share Options.

2) Class of shares of the Restructured Company to be issued upon the exercise of Share Options

Shares of common stock of the Restructured Company

3) Number of shares of the Restructured Company to be issued upon the exercise of Share Options

To be decided according to 1 above after taking into consideration the conditions, etc. of the Organizational Restructuring.

4) Value of the assets to be contributed upon the exercise of Share Options

The value of the assets to be contributed upon the exercise of each Share Option granted shall be the amount paid per share after restructuring obtained by adjusting the Exercise Price determined by cash payment upon exercise of Share Options after taking into consideration the conditions, etc. of Organizational Restructuring multiplied by the number of shares of the Restructured Company to be issued upon the exercise of the Share Options as determined in accordance with 3) above.

5) Exercise period of Share Options

Starting from the later of either the first date of the exercise period of Share Options as stipulated in 2 above, or the date on which the Organizational Restructuring becomes effective and ending on the expiration date for the exercise of Share Options as stipulated in 2 above.

6) Matters concerning increase in capital stock and capital reserve to be increased by issuing of shares by the Restructured Company upon the exercise of Share Options

To be determined in accordance with 4 above.

7) Restriction on acquisition of Share Options by transfer

Acquisition of Share Options by transfer shall be subject to the approval of the Board of Directors of the Company under Organizational Restructuring (or by the majority decision of Directors if such company is not a company with Board of Directors).

8) Reason and conditions for acquisition of Share Options

To be determined in accordance with 5 above.

8 Rules pertaining to fractions of less than one share arising from the exercise of Share Options

Fractions of less than one share in the number of shares to be delivered to holders of Share Options who exercised Share Options shall be discarded.

16), 17) Extraordinary Resolution at General Shareholders' Meeting (March 28, 2014)

	As of the end of fiscal year (December 31, 2016)		As of the end of month preceding the submission date (February 28, 2017)	
Number of Share Options	5,238	1,444	5,238	1,444
Of the Share Options, the number of own Share Options	760	50	779	68
Class of shares to be issued upon exercise of Share Options	Common stock		Same as on the left	
Number of shares to be issued upon exercise of Share Options	523,800 (Note 1)	144,400 (Note 1)	523,800 (Note 1)	144,400 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	¥1 per right	Same as on the left	
Exercise period of Share Options	From March 29, 2018 to March 27, 2024 (Note 2)		Same as on the left	
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	Issue price: ¥1,320 Amount to be included in capital: ¥660 (Note 4)	Issue price: ¥1,201 Amount to be included in capital: ¥601 (Note 4)	Same as on the left	
Conditions for exercise of Share Options	(Note 3)		Same as on the left	
Matters concerning transfer of Share Options	(Note 6)		Same as on the left	
Matters concerning collateral payment	—		—	
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)		Same as on the left	

(Notes) 1 to 8 Same as Notes 1 to 8 of the Share Options of 14), 15) Extraordinary Resolution at General Shareholders' Meeting (March 28, 2014).

18), 19) Extraordinary Resolution at General Shareholders' Meeting (March 28, 2014)

	As of the end of fiscal year (December 31, 2016)		As of the end of month preceding the submission date (February 28, 2017)	
Number of Share Options	17,130	8,731	17,130	8,731
Of the Share Options, the number of own Share Options	2,482	1,574	2,482	1,669
Class of shares to be issued upon exercise of Share Options	Common stock		Same as on the left	
Number of shares to be issued upon exercise of Share Options	1,713,000 (Note 1)	873,100 (Note 1)	1,713,000 (Note 1)	873,100 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	¥1 per right	Same as on the left	
Exercise period of Share Options	From March 29, 2018 to March 27, 2024 (Note 2)		Same as on the left	
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	Issue price: ¥1,230 Amount to be included in capital: ¥615 (Note 4)	Issue price: ¥1,629 Amount to be included in capital: ¥815 (Note 4)	Same as on the left	
Conditions for exercise of Share Options	(Note 3)		Same as on the left	
Matters concerning transfer of Share Options	(Note 6)		Same as on the left	
Matters concerning collateral payment	—		—	
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)		Same as on the left	

(Notes) 1 to 8 Same as Notes 1 to 8 of the Share Options of 14), 15) Extraordinary Resolution at General Shareholders' Meeting (March 28, 2014).

20) Extraordinary Resolution at General Shareholders' Meeting (March 28, 2014)

	As of the end of fiscal year (December 31, 2016)	As of the end of month preceding the submission date (February 28, 2017)
Number of Share Options	8,924	8,924
Of the Share Options, the number of own Share Options	2,298	2,440
Class of shares to be issued upon exercise of Share Options	Common stock	Same as on the left
Number of shares to be issued upon exercise of Share Options	892,400 (Note 1)	892,400 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	Same as on the left
Exercise period of Share Options	From March 29, 2018 to March 27, 2024 (Note 2)	Same as on the left
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	Issue price: ¥1,980 Amount to be included in capital: ¥990 (Note 4)	Same as on the left
Conditions for exercise of Share Options	(Note 3)	Same as on the left
Matters concerning transfer of Share Options	(Note 6)	Same as on the left
Matters concerning collateral payment	—	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)	Same as on the left

(Notes) 1 to 8 Same as Notes 1 to 8 of the Share Options of 14), 15) Extraordinary Resolution at General Shareholders' Meeting (March 28, 2014).

## 21), 22) Extraordinary Resolution at General Shareholders' Meeting (March 27, 2015)

	As of the end of fiscal year (December 31, 2016)		As of the end of month preceding the submission date (February 28, 2017)	
Number of Share Options	2,943	987	2,943	987
Of the Share Options, the number of own Share Options	65	—	65	—
Class of shares to be issued upon exercise of Share Options	Common stock		Same as on the left	
Number of shares to be issued upon exercise of Share Options	294,300 (Note 1)	98,700 (Note 1)	294,300 (Note 1)	98,700 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	¥1 per right	Same as on the left	
Exercise period of Share Options	A. 15% of granted options From June 1, 2016 to June 1, 2025	A. 15% of granted options From July 1, 2016 to July 1, 2025	Same as on the left	
	B. 20% of granted options From June 1, 2017 to June 1, 2025	B. 20% of granted options From July 1, 2017 to July 1, 2025		
	C. 30% of granted options From June 1, 2018 to June 1, 2025	C. 30% of granted options From July 1, 2018 to July 1, 2025		
	D. 35% of granted options From June 1, 2019 to June 1, 2025 (Note 2)	D. 35% of granted options From July 1, 2019 to July 1, 2025 (Note 2)		
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	A. Issue price: ¥2,055 Amount to be included in capital: ¥1,028	A. Issue price: ¥2,026 Amount to be included in capital: ¥1,013	Same as on the left	
	B. Issue price: ¥2,051 Amount to be included in capital: ¥1,026	B. Issue price: ¥2,022 Amount to be included in capital: ¥1,011		
	C. Issue price: ¥2,046 Amount to be included in capital: ¥1,023	C. Issue price: ¥2,017 Amount to be included in capital: ¥1,009		
	D. Issue price: ¥2,042 Amount to be included in capital: ¥1,021 (Note 4)	D. Issue price: ¥2,013 Amount to be included in capital: ¥1,007 (Note 4)		
Conditions for exercise of Share Options	(Note 3)		Same as on the left	
Matters concerning transfer of Share Options	(Note 6)		Same as on the left	
Matters concerning collateral payment	—		—	

	As of the end of fiscal year (December 31, 2016)	As of the end of month preceding the submission date (February 28, 2017)
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)	Same as on the left
(Notes) 1 Class and number of shares to be issued upon exercise of Share Options (hereinafter referred to as "Issued Shares")		
100 shares shall be issued for each Share Option. (The number of shares for each Share Option shall be hereinafter referred to as "Number of Shares.")		
However, if the Company splits its common stock (including allotment of its common stock without compensation; hereinafter the same will apply) or consolidates its common stock, the number of shares to be issued upon exercise of each unit of such Share Options will be adjusted according to the following formula; provided that such adjustment will be made only to those that remain unexercised or uncanceled at the time of such adjustment and; provided, further, that if any fraction less than one share arises as a result of such adjustment, such fraction shall be discarded.		
$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$		
In addition, if the Company carries out a merger, a company split, share exchange, share transfer, or other action that makes it necessary to adjust the number of shares, the number of shares will be adjusted within a reasonable range, taking into account the conditions of the merger, company split, share exchange, share transfer, or other similar action.		
2 Exercise period of Share Options		
The exercise period will be from the date on which one year has passed from the issuance of the Share Options (hereinafter "date of issuance") to the date on which ten years have passed from the date of issuance. If the final day of the exercise period falls on a holiday of the Company, the final day shall be the working day immediately preceding the final day.		
3 Conditions for exercise of Share Options		
1) Those who received the allotment of the issue of Share Options shall remain Directors, Executive Officers, Company Auditors or employees of the Company, or its subsidiaries or affiliates at the time of exercising such rights, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.		
2) Share Options shall not be inherited, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.		
3) Share Options shall not be offered for pledge or disposed of in any other way.		
4) Share Options may be exercised by the Holder of Share Options, in whole or in part, according to the following categories.		
i) The entire allotment of Share Options may not be exercised prior to the date on which one year has passed from the date of issuance.		
ii) 15% of the allotment of Share Options may be exercised from the date on which one year has passed from the date of issuance to the date prior to the date on which two years have passed from the date of issuance (if a fraction less than one unit arises in the number of exercisable Share Options, such fraction will be discarded).		
iii) 35% of the allotment of Share Options (if a portion of the allotment of Share Options had been exercised prior to the date on which two years have passed from the date of issuance, the total amount exercisable including the previously exercised portion shall be 35%) may be exercised from the date on which two years have passed from the date of issuance to the date prior to the date on which three years have passed from the date of issuance (if a fraction less than one unit arises in the number of exercisable Share Options, such fraction will be discarded).		

- iv) 65% of the allotment of Share Options (if a portion of the allotment of Share Options had been exercised prior to the date on which three years have passed from the date of issuance, the total amount exercisable including the previously exercised portion will be 65%) may be exercised from the date on which three years have passed from the date of issuance to the date prior to the date on which four years have passed from the date of issuance (if a fraction less than one unit arises in the number of exercisable Share Options, such fraction will be discarded).
  - v) The entire allotment of Share Options may be exercised from the date on which four years have passed from the date of issuance to the date on which ten years have passed from the date of issuance.
- 5) The Holders of Share Options have duties to pay all taxes (including but not limited to income tax, social security contributions, pensions, and employment insurance premium) specified by laws and regulations in relation to stock options and shares. In the case where the Company and its subsidiaries and affiliates is obliged to levy income tax, etc., the relevant company obliged to levy income tax, etc. will be able to levy tax from Holders of Share Options by the methods listed below.
- i) Receipt by cash
  - ii) Appropriation of shares owned by the Holders of Share Options
  - iii) Deduction from salaries, bonuses, etc. of the Holders of Share Options
  - iv) Other methods specified by the Company
- 4 Matters concerning increase in capital stock and capital reserve by issuing of shares upon exercise of Share Options
- 1) Amount of increase in capital stock by issuing shares upon exercise of Share Options will be half of the upper limit of capital increase as calculated pursuant to the provisions of Article 17, Paragraph 1 of the Ordinance on Accounting of Companies, where any resultant fraction less than one yen will be rounded up.
  - 2) Amount of increase in capital reserve by issuing shares upon exercise of Share Options will be the upper limit of capital stock increase as described in 1) above minus the amount of increase in capital stock set out therein.
- 5 Reasons and conditions for the acquisition of Share Options
- 1) In the case that the proposal of any merger agreement under which the Company is dissolved, or any absorption-type company split (kyushu-bunkatsu) agreement or incorporation-type company split (shinsetsu-bunkatsu) plan in which the Company will be a splitting company, or any share exchange agreement or share transfer plan in which the Company will be a wholly owned subsidiary of another company is approved at a General Shareholders' Meeting of the Company, the Company may acquire Share Options at the date specifically determined by the Board of Directors of the Company without any compensation therefor.
  - 2) In the case that Holders of Share Options cease to accommodate the conditions of 3 1) above before exercising Share Options, the Company may acquire such Share Options at the date specifically determined by the Board of Directors of the Company without any compensation.
- 6 Restriction on the acquisition of Share Options by transfer  
Any acquisition of Share Options by transfer will require an approval of the Board of Directors of the Company by its resolution.
- 7 In the event the Company merges (limited to cases where the Company becomes a dissolving company), performs an absorption-type company split or an incorporation-type company split, or conducts a share exchange or a share transfer (hereinafter collectively referred to as "Organizational Restructuring"), Share Options of a corporation that survives after the merger, a corporation incorporated as a result of the merger, a corporation that succeeds, whole or part, to any rights and obligations that the Company holds in connection with its business as a result of an absorption-type company split, a corporation incorporated as a result of the incorporation-type company split, a corporation that acquires all of the issued shares of the Company effecting the share exchange, or a corporation incorporated as a result of the share transfer (hereinafter referred to as "Restructured Company") shall be delivered under the following conditions to each those who received the allotment of the issue of Share Options remaining unexercised (hereinafter referred to as "Remaining Share Options") at the time when Organizational



Restructuring takes effect. In this case, the Remaining Share Options will lapse and the Restructured Company will issue new Share Options. However, the foregoing shall apply only to cases in which the delivery of Share Options of the Restructured Company according to the following conditions is stipulated in the merger agreement, the absorption-type company split agreement, the incorporation-type company split plan, the share exchange agreement or the share transfer plan.

- 1) Number of Share Options of the Restructured Company to be delivered  
The Restructured Company shall deliver Share Options, the number of which shall equal the number of Share Options held by the holder of the Remaining Share Options.
- 2) Class of shares of the Restructured Company to be issued upon the exercise of Share Options  
Shares of common stock of the Restructured Company
- 3) Number of shares of the Restructured Company to be issued upon the exercise of Share Options  
To be decided according to 1 above after taking into consideration the conditions, etc. of the Organizational Restructuring.
- 4) Value of the assets to be contributed upon the exercise of Share Options  
The value of the assets to be contributed upon the exercise of each Share Option granted shall be the amount paid per share after restructuring obtained by adjusting the Exercise Price determined by cash payment upon exercise of Share Options after taking into consideration the conditions, etc. of Organizational Restructuring multiplied by the number of shares of the Restructured Company to be issued upon the exercise of the Share Options as determined in accordance with 3) above.
- 5) Exercise period of Share Options  
Starting from the later of either the first date of the exercise period of Share Options as stipulated in 2 above, or the date on which the Organizational Restructuring becomes effective and ending on the expiration date for the exercise of Share Options as stipulated in 2 above.
- 6) Matters concerning increase in capital stock and capital reserve to be increased by issuing of shares by the Restructured Company upon the exercise of Share Options  
To be determined in accordance with 4 above.
- 7) Restriction on acquisition of Share Options by transfer  
Acquisition of Share Options by transfer shall be subject to the approval of the Board of Directors of the Company under Organizational Restructuring (or by the majority decision of Directors if such company is not a company with Board of Directors).
- 8) Reason and conditions for acquisition of Share Options  
To be determined in accordance with 5 above.
- 8 Rules pertaining to fractions of less than one share arising from the exercise of Share Options  
Fractions of less than one share in the number of shares to be delivered to holders of Share Options who exercised Share Options shall be discarded.

## 23) Extraordinary Resolution at General Shareholders' Meeting (March 27, 2015)

	As of the end of fiscal year (December 31, 2016)	As of the end of month preceding the submission date (February 28, 2017)
Number of Share Options	15,758	15,756
Of the Share Options, the number of own Share Options	3,172	3,434
Class of shares to be issued upon exercise of Share Options	Common stock	Same as on the left
Number of shares to be issued upon exercise of Share Options	1,575,800 (Note 1)	1,575,600 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	Same as on the left
Exercise period of Share Options	A. 15% of granted options From August 1, 2016 to August 1, 2025 B. 20% of granted options From August 1, 2017 to August 1, 2025 C. 30% of granted options From August 1, 2018 to August 1, 2025 D. 35% of granted options From August 1, 2019 to August 1, 2025 (Note 2)	Same as on the left
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	A. Issue price: ¥1,991 Amount to be included in capital: ¥996 B. Issue price: ¥1,986 Amount to be included in capital: ¥993 C. Issue price: ¥1,982 Amount to be included in capital: ¥991 D. Issue price: ¥1,978 Amount to be included in capital: ¥989 (Note 4)	Same as on the left
Conditions for exercise of Share Options	(Note 3)	Same as on the left
Matters concerning transfer of Share Options	(Note 6)	Same as on the left
Matters concerning collateral payment	—	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)	Same as on the left
(Notes) 1 to 8	Same as Notes 1 to 8 of the Share Options of 21), 22) Extraordinary Resolution at General Shareholders' Meeting (March 27, 2015).	

24) Extraordinary Resolution at General Shareholders' Meeting (March 27, 2015)

	As of the end of fiscal year (December 31, 2016)	As of the end of month preceding the submission date (February 28, 2017)
Number of Share Options	8	8
Of the Share Options, the number of own Share Options	—	—
Class of shares to be issued upon exercise of Share Options	Common stock	Same as on the left
Number of shares to be issued upon exercise of Share Options	800 (Note 1)	800 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	Same as on the left
Exercise period of Share Options	From March 28, 2019 to March 26, 2025 (Note 2)	Same as on the left
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	Issue price: ¥1,979 Amount to be included in capital: ¥990 (Note 4)	Same as on the left
Conditions for exercise of Share Options	(Note 3)	Same as on the left
Matters concerning transfer of Share Options	(Note 6)	Same as on the left
Matters concerning collateral payment	—	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)	Same as on the left

(Notes) 1 Class and number of shares to be issued upon exercise of Share Options (hereinafter referred to as "Issued Shares")

100 shares shall be issued for each Share Option. (The number of shares for each Share Option shall be hereinafter referred to as "Number of Shares.")

However, if the Company splits its common stock (including allotment of its common stock without compensation; hereinafter the same will apply) or consolidates its common stock, the number of shares to be issued upon exercise of each unit of such Share Options will be adjusted according to the following formula; provided that such adjustment will be made only to those that remain unexercised or uncanceled at the time of such adjustment and; provided, further, that if any fraction less than one share arises as a result of such adjustment, such fraction shall be discarded.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, if the Company carries out a merger, a company split, share exchange, share transfer, or other action that makes it necessary to adjust the number of shares, the number of shares will be adjusted within a reasonable range, taking into account the conditions of the merger, company split, share exchange, share transfer, or other similar action.

2 Exercise period of Share Options

The exercise period will be from the date on which one year has passed from the issuance of the Share Options (hereinafter "date of issuance") to the date on which ten years have passed from the date of issuance. If the final day of the exercise period falls on a holiday of the Company, the final day shall be the working day immediately preceding the final day.

3 Conditions for exercise of Share Options

1) Those who received the allotment of the issue of Share Options shall remain Directors, Executive Officers, Company Auditors or employees of the Company, or its

- subsidiaries or affiliates at the time of exercising such rights, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
- 2) Share Options shall not be inherited, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
  - 3) Share Options shall not be offered for pledge or disposed of in any other way.
  - 4) The Holders of Share Options have duties to pay all taxes (including but not limited to income tax, social security contributions, pensions, and employment insurance premium) specified by laws and regulations in relation to stock options and shares. In the case where the Company and its subsidiaries and affiliates is obliged to levy income tax, etc., the relevant company obliged to levy income tax, etc. will be able to levy tax from Holders of Share Options by the methods listed below.
    - i) Receipt by cash
    - ii) Appropriation of shares owned by the Holders of Share Options
    - iii) Deduction from salaries, bonuses, etc. of the Holders of Share Options
    - iv) Other methods specified by the Company
- 4 Matters concerning increase in capital stock and capital reserve by issuing of shares upon exercise of Share Options
- 1) Amount of increase in capital stock by issuing shares upon exercise of Share Options will be half of the upper limit of capital increase as calculated pursuant to the provisions of Article 17, Paragraph 1 of the Ordinance on Accounting of Companies, where any resultant fraction less than one yen will be rounded up.
  - 2) Amount of increase in capital reserve by issuing shares upon exercise of Share Options will be the upper limit of capital stock increase as described in 1) above minus the amount of increase in capital stock set out therein.
- 5 Reasons and conditions for the acquisition of Share Options
- 1) In the case that the proposal of any merger agreement under which the Company is dissolved, or any absorption-type company split (kyushu-bunkatsu) agreement or incorporation-type company split (shinsetsu-bunkatsu) plan in which the Company will be a splitting company, or any share exchange agreement or share transfer plan in which the Company will be a wholly owned subsidiary of another company is approved at a General Shareholders' Meeting of the Company, the Company may acquire Share Options at the date specifically determined by the Board of Directors of the Company without any compensation therefor.
  - 2) In the case that Holders of Share Options cease to accommodate the conditions of 3 1) above before exercising Share Options, the Company may acquire such Share Options at the date specifically determined by the Board of Directors of the Company without any compensation.
- 6 Restriction on the acquisition of Share Options by transfer
- Any acquisition of Share Options by transfer will require an approval of the Board of Directors of the Company by its resolution.
- 7 In the event the Company merges (limited to cases where the Company becomes a dissolving company), performs an absorption-type company split or an incorporation-type company split, or conducts a share exchange or a share transfer (hereinafter collectively referred to as "Organizational Restructuring"), Share Options of a corporation that survives after the merger, a corporation incorporated as a result of the merger, a corporation that succeeds, whole or part, to any rights and obligations that the Company holds in connection with its business as a result of an absorption-type company split, a corporation incorporated as a result of the incorporation-type company split, a corporation that acquires all of the issued shares of the Company effecting the share exchange, or a corporation incorporated as a result of the share transfer (hereinafter referred to as "Restructured Company") shall be delivered under the following conditions to each those who received the allotment of the issue of Share Options remaining unexercised (hereinafter referred to as "Remaining Share Options") at the time when Organizational Restructuring takes effect. In this case, the Remaining Share Options will lapse and the Restructured Company will issue new Share Options. However, the foregoing shall apply only to cases in which the delivery of Share Options of the Restructured Company

according to the following conditions is stipulated in the merger agreement, the absorption-type company split agreement, the incorporation-type company split plan, the share exchange agreement or the share transfer plan.

1) Number of Share Options of the Restructured Company to be delivered

The Restructured Company shall deliver Share Options, the number of which shall equal the number of Share Options held by the holder of the Remaining Share Options.

2) Class of shares of the Restructured Company to be issued upon the exercise of Share Options

Shares of common stock of the Restructured Company

3) Number of shares of the Restructured Company to be issued upon the exercise of Share Options

To be decided according to 1 above after taking into consideration the conditions, etc. of the Organizational Restructuring.

4) Value of the assets to be contributed upon the exercise of Share Options

The value of the assets to be contributed upon the exercise of each Share Option granted shall be the amount paid per share after restructuring obtained by adjusting the Exercise Price determined by cash payment upon exercise of Share Options after taking into consideration the conditions, etc. of Organizational Restructuring multiplied by the number of shares of the Restructured Company to be issued upon the exercise of the Share Options as determined in accordance with 3) above.

5) Exercise period of Share Options

Starting from the later of either the first date of the exercise period of Share Options as stipulated in 2 above, or the date on which the Organizational Restructuring becomes effective and ending on the expiration date for the exercise of Share Options as stipulated in 2 above.

6) Matters concerning increase in capital stock and capital reserve to be increased by issuing of shares by the Restructured Company upon the exercise of Share Options

To be determined in accordance with 4 above.

7) Restriction on acquisition of Share Options by transfer

Acquisition of Share Options by transfer shall be subject to the approval of the Board of Directors of the Company under Organizational Restructuring (or by the majority decision of Directors if such company is not a company with Board of Directors).

8) Reason and conditions for acquisition of Share Options

To be determined in accordance with 5 above.

8 Rules pertaining to fractions of less than one share arising from the exercise of Share Options

Fractions of less than one share in the number of shares to be delivered to holders of Share Options who exercised Share Options shall be discarded.

## 25), 26) Extraordinary Resolution at General Shareholders' Meeting (March 27, 2015)

	As of the end of fiscal year (December 31, 2016)		As of the end of month preceding the submission date (February 28, 2017)	
Number of Share Options	718	7,179	718	7,172
Of the Share Options, the number of own Share Options	359	1,384	359	1,502
Class of shares to be issued upon exercise of Share Options	Common stock		Same as on the left	
Number of shares to be issued upon exercise of Share Options	71,800 (Note 1)	717,900 (Note 1)	71,800 (Note 1)	717,200 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	¥1 per right	Same as on the left	
Exercise period of Share Options	A. 15% of granted options From October 1, 2016 to October 1, 2025	A. 15% of granted options From November 1, 2016 to October 31, 2025	Same as on the left	
	B. 20% of granted options From October 1, 2017 to October 1, 2025	B. 20% of granted options From November 1, 2017 to October 31, 2025		
	C. 30% of granted options From October 1, 2018 to October 1, 2025	C. 30% of granted options From November 1, 2018 to October 31, 2025		
	D. 35% of granted options From October 1, 2019 to October 1, 2025 (Note 2)	D. 35% of granted options From November 1, 2019 to October 31, 2025 (Note 2)		
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	A. Issue price: ¥1,553 Amount to be included in capital: ¥777	A. Issue price: ¥1,683 Amount to be included in capital: ¥842	Same as on the left	
	B. Issue price: ¥1,549 Amount to be included in capital: ¥775	B. Issue price: ¥1,678 Amount to be included in capital: ¥839		
	C. Issue price: ¥1,545 Amount to be included in capital: ¥773	C. Issue price: ¥1,674 Amount to be included in capital: ¥837		
	D. Issue price: ¥1,540 Amount to be included in capital: ¥770	D. Issue price: ¥1,670 Amount to be included in capital: ¥835		

	As of the end of fiscal year (December 31, 2016)	As of the end of month preceding the submission date (February 28, 2017)
	(Note 4)	(Note 4)
Conditions for exercise of Share Options	(Note 3)	Same as on the left
Matters concerning transfer of Share Options	(Note 6)	Same as on the left
Matters concerning collateral payment	—	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)	Same as on the left
(Notes) 1 to 8	Same as Notes 1 to 8 of the Share Options of 22) Extraordinary Resolution at General Shareholders' Meeting (March 27, 2015).	

## 27) Extraordinary Resolution at General Shareholders' Meeting (March 27, 2015)

	As of the end of fiscal year (December 31, 2016)	As of the end of month preceding the submission date (February 28, 2017)
Number of Share Options	19,993	19,856
Of the Share Options, the number of own Share Options	2,808	3,083
Class of shares to be issued upon exercise of Share Options	Common stock	Same as on the left
Number of shares to be issued upon exercise of Share Options	1,999,300 (Note 1)	1,985,600 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	Same as on the left
Exercise period of Share Options	A. 15% of granted options From February 1, 2017 to February 1, 2026 B. 20% of granted options From February 1, 2018 to February 1, 2026 C. 30% of granted options From February 1, 2019 to February 1, 2026 D. 35% of granted options From February 1, 2020 to February 1, 2026 (Note 2)	Same as on the left
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	A. Issue price: ¥1,290 Amount to be included in capital: ¥645 B. Issue price: ¥1,286 Amount to be included in capital: ¥643 C. Issue price: ¥1,282 Amount to be included in capital: ¥641 D. Issue price: ¥1,277 Amount to be included in capital: ¥639 (Note 4)	Same as on the left
Conditions for exercise of Share Options	(Note 3)	Same as on the left
Matters concerning transfer of Share Options	(Note 6)	Same as on the left
Matters concerning collateral payment	—	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)	Same as on the left
(Notes) 1 to 8	Same as Notes 1 to 8 of the Share Options of 21), 22) Extraordinary Resolution at General Shareholders' Meeting (March 27, 2015).	



28) Extraordinary Resolution at General Shareholders' Meeting (March 27, 2015)

	As of the end of fiscal year (December 31, 2016)	As of the end of month preceding the submission date (February 28, 2017)
Number of Share Options	16	16
Of the Share Options, the number of own Share Options	—	—
Class of shares to be issued upon exercise of Share Options	Common stock	Same as on the left
Number of shares to be issued upon exercise of Share Options	1,600 (Note 1)	1,600 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	Same as on the left
Exercise period of Share Options	From March 28, 2019 to March 26, 2025 (Note 2)	Same as on the left
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	Issue price: ¥1,281 Amount to be included in capital: ¥641 (Note 4)	Same as on the left
Conditions for exercise of Share Options	(Note 3)	Same as on the left
Matters concerning transfer of Share Options	(Note 6)	Same as on the left
Matters concerning collateral payment	—	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)	Same as on the left
(Notes) 1 to 8 Same as Notes 1 to 8 of the Share Options of 24) Extraordinary Resolution at General Shareholders' Meeting (March 27, 2015).		

## 29) Extraordinary Resolution at General Shareholders' Meeting (March 27, 2015)

	As of the end of fiscal year (December 31, 2016)	As of the end of month preceding the submission date (February 28, 2017)
Number of Share Options	8,484	8,484
Of the Share Options, the number of own Share Options	401	1,014
Class of shares to be issued upon exercise of Share Options	Common stock	Same as on the left
Number of shares to be issued upon exercise of Share Options	848,400 (Note 1)	848,400 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	Same as on the left
Exercise period of Share Options	A. 15% of granted options From March 1, 2017 to March 1, 2026 B. 20% of granted options From March 1, 2018 to March 1, 2026 C. 30% of granted options From March 1, 2019 to March 1, 2026 D. 35% of granted options From March 1, 2020 to March 1, 2026 (Note 2)	Same as on the left
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	A. Issue price: ¥1,069 Amount to be included in capital: ¥535 B. Issue price: ¥1,065 Amount to be included in capital: ¥533 C. Issue price: ¥1,060 Amount to be included in capital: ¥530 D. Issue price: ¥1,056 Amount to be included in capital: ¥528 (Note 4)	Same as on the left
Conditions for exercise of Share Options	(Note 3)	Same as on the left
Matters concerning transfer of Share Options	(Note 6)	Same as on the left
Matters concerning collateral payment	—	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)	Same as on the left
(Notes) 1 to 8	Same as Notes 1 to 8 of the Share Options of 21), 22) Extraordinary Resolution at General Shareholders' Meeting (March 27, 2015).	

30) Extraordinary Resolution at General Shareholders' Meeting (March 27, 2015)

	As of the end of fiscal year (December 31, 2016)	As of the end of month preceding the submission date (February 28, 2017)
Number of Share Options	120	120
Of the Share Options, the number of own Share Options	—	—
Class of shares to be issued upon exercise of Share Options	Common stock	Same as on the left
Number of shares to be issued upon exercise of Share Options	12,000 (Note 1)	12,000 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	Same as on the left
Exercise period of Share Options	From March 28, 2019 to March 26, 2025 (Note 2)	Same as on the left
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	Issue price: ¥1,060 Amount to be included in capital: ¥530 (Note 4)	Same as on the left
Conditions for exercise of Share Options	(Note 3)	Same as on the left
Matters concerning transfer of Share Options	(Note 6)	Same as on the left
Matters concerning collateral payment	—	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)	Same as on the left

(Notes) 1 to 8 Same as Notes 1 to 8 of the Share Options of 21), 22) Extraordinary Resolution at General Shareholders' Meeting (March 27, 2015).

## 31), 32) Extraordinary Resolution at General Shareholders' Meeting (March 30, 2016)

	As of the end of fiscal year (December 31, 2016)		As of the end of month preceding the submission date (February 28, 2017)	
Number of Share Options	10,297	29,171	10,297	29,171
Of the Share Options, the number of own Share Options	964	1,382	1,048	1,900
Class of shares to be issued upon exercise of Share Options	Common stock		Same as on the left	
Number of shares to be issued upon exercise of Share Options	1,029,700 (Note 1)	2,917,100 (Note 1)	1,029,700 (Note 1)	2,917,100 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	¥1 per right	Same as on the left	
Exercise period of Share Options	A. 15% of granted options From May 1, 2017 to May 1, 2026	A. 15% of granted options From August 1, 2017 to July 31, 2026	Same as on the left	
	B. 20% of granted options From May 1, 2018 to May 1, 2026	B. 20% of granted options From August 1, 2018 to July 31, 2026		
	C. 30% of granted options From May 1, 2019 to May 1, 2026	C. 30% of granted options From August 1, 2019 to July 31, 2026		
	D. 35% of granted options From May 1, 2020 to May 1, 2026 (Note 2)	D. 35% of granted options From August 1, 2020 to July 31, 2026 (Note 2)		
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	A. Issue price: ¥1,216 Amount to be included in capital: ¥608	A. Issue price: ¥1,184 Amount to be included in capital: ¥592	Same as on the left	
	B. Issue price: ¥1,212 Amount to be included in capital: ¥606	B. Issue price: ¥1,180 Amount to be included in capital: ¥590		
	C. Issue price: ¥1,207 Amount to be included in capital: ¥604	C. Issue price: ¥1,176 Amount to be included in capital: ¥588		
	D. Issue price: ¥1,203 Amount to be included in capital: ¥602 (Note 4)	D. Issue price: ¥1,171 Amount to be included in capital: ¥586 (Note 4)		
Conditions for exercise of Share Options	(Note 3)		Same as on the left	
	As of the end of fiscal year (December 31, 2016)		As of the end of month preceding the submission date (February 28, 2017)	
Matters concerning transfer of Share Options	(Note 6)		Same as on the left	

Matters concerning collateral payment	—	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)	Same as on the left

(Notes) 1 Number of shares to be issued upon exercise of Share Options (hereinafter referred to as “Issued Shares”)

100 shares shall be issued for each Share Option. (The number of shares for each Share Option shall be hereinafter referred to as “Number of Shares.”)

However, if the Company splits its common stock (including allotment of its common stock without compensation; hereinafter the same will apply) or consolidates its common stock, the number of shares to be issued upon exercise of each unit of such Share Options will be adjusted according to the following formula; provided that such adjustment will be made only to those that remain unexercised or uncanceled at the time of such adjustment and; provided, further, that if any fraction less than one share arises as a result of such adjustment, such fraction shall be discarded.

$$\text{Number of shares after adjustment} = \frac{\text{Number of shares before adjustment}}{\text{Ratio of split or consolidation}}$$

In addition, if the Company carries out a merger, a company split, share exchange, share transfer, or other action that makes it necessary to adjust the number of shares, the number of shares will be adjusted within a reasonable range, taking into account the conditions of the merger, company split, share exchange, share transfer, or other similar action.

## 2 Exercise period of Share Options

The exercise period will be from the date on which one year has passed from the issuance of the Share Options (hereinafter “date of issuance”) to the date on which ten years have passed from the date of issuance. If the final day of the exercise period falls on a holiday of the Company, the final day shall be the working day immediately preceding the final day.

## 3 Conditions for exercise of Share Options

- 1) Those who received the allotment of the issue of Share Options shall remain Directors, Executive Officers, Company Auditors or employees of the Company, or its subsidiaries or affiliates at the time of exercising such rights, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
- 2) Share Options shall not be inherited, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
- 3) Share Options shall not be offered for pledge or disposed of in any other way.
- 4) Share Options may be exercised by the Holder of Share Options, in whole or in part, according to the following categories.
  - i) The entire allotment of Share Options may not be exercised prior to the date on which one year has passed from the date of issuance.
  - ii) 15% of the allotment of Share Options may be exercised from the date on which one year has passed from the date of issuance to the date prior to the date on which two years have passed from the date of issuance (if a fraction less than one unit arises in the number of exercisable Share Options, such fraction will be discarded).
  - iii) 35% of the allotment of Share Options (if a portion of the allotment of Share Options had been exercised prior to the date on which two years have passed from the date of issuance, the total amount exercisable including the previously exercised portion shall be 35%) may be exercised from the date on which two years have passed from the date of issuance to the date prior to the date on which three years have passed from the date of issuance (if a fraction less than one unit arises in the number of exercisable Share Options, such fraction will be discarded).
  - iv) 65% of the allotment of Share Options (if a portion of the allotment of Share Options had been exercised prior to the date on which three years have passed

- from the date of issuance, the total amount exercisable including the previously exercised portion will be 65%) may be exercised from the date on which three years have passed from the date of issuance to the date prior to the date on which four years have passed from the date of issuance (if a fraction less than one unit arises in the number of exercisable Share Options, such fraction will be discarded).
- v) The entire allotment of Share Options may be exercised from the date on which four years have passed from the date of issuance to the date on which ten years have passed from the date of issuance.
- 5) The Holders of Share Options have duties to pay all taxes (including but not limited to income tax, social security contributions, pensions, and employment insurance premium) specified by laws and regulations in relation to stock options and shares. In the case where the Company and its subsidiaries and affiliates is obliged to levy income tax, etc., the relevant company obliged to levy income tax, etc. will be able to levy tax from Holders of Share Options by the methods listed below.
- i) Receipt by cash
  - ii) Appropriation of shares owned by the Holders of Share Options
  - iii) Deduction from salaries, bonuses, etc. of the Holders of Share Options
  - iv) Other methods specified by the Company
- 4 Matters concerning increase in capital stock and capital reserve by issuing of shares upon exercise of Share Options
- 1) Amount of increase in capital stock by issuing shares upon exercise of Share Options will be half of the upper limit of capital increase as calculated pursuant to the provisions of Article 17, Paragraph 1 of the Ordinance on Accounting of Companies, where any resultant fraction less than one yen will be rounded up.
  - 2) Amount of increase in capital reserve by issuing shares upon exercise of Share Options will be the upper limit of capital stock increase as described in 1) above minus the amount of increase in capital stock set out therein.
- 5 Reasons and conditions for the acquisition of Share Options
- 1) In the case that the proposal of any merger agreement under which the Company is dissolved, or any absorption-type company split (kyushu-bunkatsu) agreement or incorporation-type company split (shinsetsu-bunkatsu) plan in which the Company will be a splitting company, or any share exchange agreement or share transfer plan in which the Company will be a wholly owned subsidiary of another company is approved at a General Shareholders' Meeting of the Company, the Company may acquire Share Options at the date specifically determined by the Board of Directors of the Company without any compensation therefor.
  - 2) In the case that Holders of Share Options cease to accommodate the conditions of 3 1) above before exercising Share Options, the Company may acquire such Share Options at the date specifically determined by the Board of Directors of the Company without any compensation.
- 6 Restriction on the acquisition of Share Options by transfer  
Any acquisition of Share Options by transfer will require an approval of the Board of Directors of the Company by its resolution.
- 7 In the event the Company merges (limited to cases where the Company becomes a dissolving company), performs an absorption-type company split or an incorporation-type company split, or conducts a share exchange or a share transfer (hereinafter collectively "Organizational Restructuring"), Share Options of a corporation described in Article 236, Paragraph 1, Items 8.1 through 8.5 of the Companies Act (hereinafter "Restructured Company") will be delivered under the following conditions to Holders of Share Options remaining unexercised (hereinafter "Remaining Share Options") at the time when Organizational Restructuring takes effect. In this case, the Remaining Share Options will lapse and the Restructured Company will issue new Share Options. However, the foregoing will apply only to cases in which the delivery of Share Options of the Restructured Company according to the following conditions is stipulated in the merger agreement, the absorption-type company split agreement, the incorporation-type company split plan, the share exchange agreement, or the share transfer plan.

- 1) Number of Share Options of the Restructured Company to be delivered  
The Restructured Company shall deliver Share Options, the number of which shall equal the number of Share Options held by the holder of the Remaining Share Options.
- 2) Class of shares of the Restructured Company to be issued upon the exercise of Share Options  
Shares of common stock of the Restructured Company
- 3) Number of shares of the Restructured Company to be issued upon the exercise of Share Options  
To be decided according to 1 above after taking into consideration the conditions, etc. of the Organizational Restructuring.
- 4) Value of the assets to be contributed upon the exercise of Share Options  
The value of the assets to be contributed upon the exercise of each Share Options will be decided according to the value of the assets to be contributed upon the exercise of each Share Options after taking into consideration the conditions, etc. of the Organizational Restructuring.
- 5) Exercise period of Share Options  
Starting from the later of either the first date of the exercise period of Share Options as stipulated in 2 above, or the date on which the Organizational Restructuring becomes effective and ending on the expiration date for the exercise of Share Options as stipulated in 2 above.
- 6) Matters concerning increase in capital stock and capital reserve to be increased by issuing of shares by the Restructured Company upon the exercise of Share Options  
To be determined in accordance with 4 above.
- 7) Restriction on acquisition of Share Options by transfer  
Acquisition of Share Options by transfer shall be subject to the approval of the Board of Directors of the Company under Organizational Restructuring (or by the majority decision of Directors if such company is not a company with Board of Directors).
- 8) Reason and conditions for acquisition of Share Options  
To be determined in accordance with 5 above.
- 8) Rules pertaining to fractions of less than one share arising from the exercise of Share Options  
Fractions of less than one share in the number of shares to be delivered to holders of Share Options who exercised Share Options shall be discarded.

33) Extraordinary Resolution at General Shareholders' Meeting (March 30, 2016)

	As of the end of fiscal year (December 31, 2016)	As of the end of month preceding the submission date (February 28, 2017)
Number of Share Options	18	18
Of the Share Options, the number of own Share Options	—	—
Class of shares to be issued upon exercise of Share Options	Common stock	Same as on the left
Number of shares to be issued upon exercise of Share Options	1,800 (Note 1)	1,800 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	Same as on the left
Exercise period of Share Options	From March 31, 2020 to March 29, 2026 (Note 2)	Same as on the left
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	Issue price: ¥1,316 Amount to be included in capital: ¥658 (Note 4)	Same as on the left
Conditions for exercise of Share Options	(Note 3)	Same as on the left
Matters concerning transfer of Share Options	(Note 6)	Same as on the left
Matters concerning collateral payment	—	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)	Same as on the left

(Notes) 1 Number of shares to be issued upon exercise of Share Options (hereinafter referred to as "Issued Shares")

100 shares shall be issued for each Share Option. (The number of shares for each Share Option shall be hereinafter referred to as "Number of Shares.")

However, if the Company splits its common stock (including allotment of its common stock without compensation; hereinafter the same will apply) or consolidates its common stock, the number of shares to be issued upon exercise of each unit of such Share Options will be adjusted according to the following formula; provided that such adjustment will be made only to those that remain unexercised or uncanceled at the time of such adjustment and; provided, further, that if any fraction less than one share arises as a result of such adjustment, such fraction shall be discarded.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, if the Company carries out a merger, a company split, share exchange, share transfer, or other action that makes it necessary to adjust the number of shares, the number of shares will be adjusted within a reasonable range, taking into account the conditions of the merger, company split, share exchange, share transfer, or other similar action.

2 Exercise period of Share Options

The exercise period will be from the date on which one year has passed from the issuance of the Share Options (hereinafter "date of issuance") to the date on which ten years have passed from the date of issuance. If the final day of the exercise period falls on a holiday of the Company, the final day shall be the working day immediately preceding the final day.

3 Conditions for exercise of Share Options

1) Those who received the allotment of the issue of Share Options shall remain Directors, Executive Officers, Company Auditors or employees of the Company, or its subsidiaries or affiliates at the time of exercising such rights, provided however that



- exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
- 2) Share Options shall not be inherited, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
  - 3) Share Options shall not be offered for pledge or disposed of in any other way.
  - 4) The Holders of Share Options have duties to pay all taxes (including but not limited to income tax, social security contributions, pensions, and employment insurance premium) specified by laws and regulations in relation to stock options and shares. In the case where the Company and its subsidiaries and affiliates is obliged to levy income tax, etc., the relevant company obliged to levy income tax, etc. will be able to levy tax from Holders of Share Options by the methods listed below.
    - i) Receipt by cash
    - ii) Appropriation of shares owned by the Holders of Share Options
    - iii) Deduction from salaries, bonuses, etc. of the Holders of Share Options
    - iv) Other methods specified by the Company
- 4 Matters concerning increase in capital stock and capital reserve by issuing of shares upon exercise of Share Options
- 1) Amount of increase in capital stock by issuing shares upon exercise of Share Options will be half of the upper limit of capital increase as calculated pursuant to the provisions of Article 17, Paragraph 1 of the Ordinance on Accounting of Companies, where any resultant fraction less than one yen will be rounded up.
  - 2) Amount of increase in capital reserve by issuing shares upon exercise of Share Options will be the upper limit of capital stock increase as described in 1) above minus the amount of increase in capital stock set out therein.
- 5 Reasons and conditions for the acquisition of Share Options
- 1) In the case that the proposal of any merger agreement under which the Company is dissolved, or any absorption-type company split (kyushu-bunkatsu) agreement or incorporation-type company split (shinsetsu-bunkatsu) plan in which the Company will be a splitting company, or any share exchange agreement or share transfer plan in which the Company will be a wholly owned subsidiary of another company is approved at a General Shareholders' Meeting of the Company, the Company may acquire Share Options at the date specifically determined by the Board of Directors of the Company without any compensation therefor.
  - 2) In the case that Holders of Share Options cease to accommodate the conditions of 3 1) above before exercising Share Options, the Company may acquire such Share Options at the date specifically determined by the Board of Directors of the Company without any compensation.
- 6 Restriction on the acquisition of Share Options by transfer
- Any acquisition of Share Options by transfer will require an approval of the Board of Directors of the Company by its resolution.
- 7 In the event the Company merges (limited to cases where the Company becomes a dissolving company), performs an absorption-type company split or an incorporation-type company split, or conducts a share exchange or a share transfer (hereinafter collectively "Organizational Restructuring"), Share Options of a corporation described in Article 236, Paragraph 1, Items 8.1 through 8.5 of the Companies Act (hereinafter "Restructured Company") will be delivered under the following conditions to Holders of Share Options remaining unexercised (hereinafter "Remaining Share Options") at the time when Organizational Restructuring takes effect. In this case, the Remaining Share Options will lapse and the Restructured Company will issue new Share Options. However, the foregoing will apply only to cases in which the delivery of Share Options of the Restructured Company according to the following conditions is stipulated in the merger agreement, the absorption-type company split agreement, the incorporation-type company split plan, the share exchange agreement, or the share transfer plan.
- 1) Number of Share Options of the Restructured Company to be delivered  
The Restructured Company shall deliver Share Options, the number of which shall equal the number of Share Options held by the holder of the Remaining Share Options.
  - 2) Class of shares of the Restructured Company to be issued upon the exercise of Share

Options

Shares of common stock of the Restructured Company

- 3) Number of shares of the Restructured Company to be issued upon the exercise of Share Options  
To be decided according to 1 above after taking into consideration the conditions, etc. of the Organizational Restructuring.
  - 4) Value of the assets to be contributed upon the exercise of Share Options  
The value of the assets to be contributed upon the exercise of each Share Options will be decided according to the value of the assets to be contributed upon the exercise of each Share Options after taking into consideration the conditions, etc. of the Organizational Restructuring.
  - 5) Exercise period of Share Options  
Starting from the later of either the first date of the exercise period of Share Options as stipulated in 2 above, or the date on which the Organizational Restructuring becomes effective and ending on the expiration date for the exercise of Share Options as stipulated in 2 above.
  - 6) Matters concerning increase in capital stock and capital reserve to be increased by issuing of shares by the Restructured Company upon the exercise of Share Options  
To be determined in accordance with 4 above.
  - 7) Restriction on acquisition of Share Options by transfer  
Acquisition of Share Options by transfer shall be subject to the approval of the Board of Directors of the Company under Organizational Restructuring (or by the majority decision of Directors if such company is not a company with Board of Directors).
  - 8) Reason and conditions for acquisition of Share Options  
To be determined in accordance with 5 above.
- 8 Rules pertaining to fractions of less than one share arising from the exercise of Share Options  
Fractions of less than one share in the number of shares to be delivered to holders of Share Options who exercised Share Options shall be discarded.

34) Extraordinary Resolution at General Shareholders' Meeting (March 30, 2016)

	As of the end of fiscal year (December 31, 2016)	As of the end of month preceding the submission date (February 28, 2017)
Number of Share Options	8,272	8,272
Of the Share Options, the number of own Share Options	109	208
Class of shares to be issued upon exercise of Share Options	Common stock	Same as on the left
Number of shares to be issued upon exercise of Share Options	827,200 (Note 1)	827,200 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	Same as on the left
Exercise period of Share Options	A. 15% of granted options From November 1, 2017 to October 31, 2026 B. 20% of granted options From November 1, 2018 to October 31, 2026 C. 30% of granted options From November 1, 2019 to October 31, 2026 D. 35% of granted options From November 1, 2020 to October 31, 2026 (Note 2)	Same as on the left
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	A. Issue price: ¥1,214 Amount to be included in capital: ¥607 B. Issue price: ¥1,210 Amount to be included in capital: ¥605 C. Issue price: ¥1,206 Amount to be included in capital: ¥603 D. Issue price: ¥1,201 Amount to be included in capital: ¥601 (Note 4)	Same as on the left
Conditions for exercise of Share Options	(Note 3)	Same as on the left
Matters concerning transfer of Share Options	(Note 6)	Same as on the left
Matters concerning collateral payment	—	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)	Same as on the left
(Notes) 1 to 8 Same as Notes 1 to 8 of the Share Options of 31), 32) Extraordinary Resolution at General Shareholders' Meeting (March 30, 2016).		

35) Extraordinary Resolution at General Shareholders' Meeting (March 30, 2016)

		As of the end of month preceding the submission date (February 28, 2017)
Number of Share Options		24,574
Of the Share Options, the number of own Share Options		308
Class of shares to be issued upon exercise of Share Options		Common stock
Number of shares to be issued upon exercise of Share Options		2,457,400 (Note 1)
Cash payment upon exercise of Share Options		¥1 per right
Exercise period of Share Options	A. 15% of granted options From February 1, 2018 to January 31, 2027 B. 20% of granted options From February 1, 2019 to January 31, 2027 C. 30% of granted options From February 1, 2020 to January 31, 2027 D. 35% of granted options From February 1, 2021 to January 31, 2027 (Note 2)	
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	A. Issue price: ¥1,101 Amount to be included in capital: ¥551 B. Issue price: ¥1,097 Amount to be included in capital: ¥549 C. Issue price: ¥1,093 Amount to be included in capital: ¥547 D. Issue price: ¥1,088 Amount to be included in capital: ¥544 (Note 4)	
Conditions for exercise of Share Options	(Note 3)	
Matters concerning transfer of Share Options	(Note 6)	
Matters concerning collateral payment	—	
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)	

(Notes) 1 to 8 Same as Notes 1 to 8 of the Share Options of 31), 32) Extraordinary Resolution at General Shareholders' Meeting (March 30, 2016).

36) Extraordinary Resolution at General Shareholders' Meeting (March 30, 2016)

	As of the end of month preceding the submission date (February 28, 2017)
Number of Share Options	19
Of the Share Options, the number of own Share Options	—
Class of shares to be issued upon exercise of Share Options	Common stock
Number of shares to be issued upon exercise of Share Options	1,900 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right
Exercise period of Share Options	From March 31, 2020 to March 27, 2026 (Note 2)
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	Issue price: ¥1,092 Amount to be included in capital: ¥546 (Note 4)
Conditions for exercise of Share Options	(Note 3)
Matters concerning transfer of Share Options	(Note 6)
Matters concerning collateral payment	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)

(Notes) 1 to 8 Same as Notes 1 to 8 of the Share Options of 33) Extraordinary Resolution at General Shareholders' Meeting (March 30, 2016).

## (3) Status in the Exercise of Bonds with Share Options with Exercise Price Amendment

Not applicable.

## (4) Rights Plans

Not applicable.

## (5) Changes in the Total Number of Shares Issued and the Amount of Common Stock and Others

(Millions of Yen, unless otherwise stated)

Period	Changes in the total number of shares issued (shares)	Balance of the total number of shares issued (shares)	Changes in common stock	Balance of common stock	Changes in legal capital surplus	Balance of legal capital surplus
From January 1, 2012 to June 30, 2012 (Note 1)	6,082	13,200,660	154	108,113	154	75,649
July 1, 2012 (Note 2)	1,306,865,340	1,320,066,000	—	108,113	—	75,649
From July 1, 2012 to December 31, 2012 (Note 1)	560,600	1,320,626,600	141	108,255	141	75,791
From January 1, 2013 to December 31, 2013 (Note 1)	3,236,500	1,323,863,100	1,274	109,530	1,274	77,066
From January 1, 2014 to December 31, 2014 (Note 1)	4,740,300	1,328,603,400	2,071	111,601	2,071	79,138
From January 1, 2015 to June 30, 2015 (Note 1)	1,777,100	1,330,380,500	816	112,418	816	79,955
June 30, 2015 (Note 3)	99,606,500	1,429,987,000	90,987	203,405	90,986	170,941
From July 1, 2015 to December 31, 2015 (Note 1)	386,900	1,430,373,900	182	203,587	182	171,124
From January 1, 2016 to December 31, 2016 (Note 1)	2,048,700	1,432,422,600	974	204,562	974	172,099

(Notes) 1 Through the exercise of Share Options or subscription warrants.

2 The Company conducted a 100-for-1 share split on July 1, 2012. As a result of this, the number of shares issued increased by 1,306,865,340 shares.

3 Due to an increase in public offerings with consideration in Japan as well as an increase in public offering in the overseas markets (however, in the United States, only for sales to qualified institutional investors under Rule 144A of the U.S. Securities Act 1933). The issue price for these offerings was ¥1,905.5, the subscription price was ¥1,826.92, and the amount to be included in capital was ¥913.46.

4 Due to the exercise of Share Options, total number of shares issued increased by 92,800 shares, common stock increased by ¥42 million and legal capital surplus increased by

¥42 million in the period from January 1, 2017 to February 28, 2017.

(6) Status of Shareholders

As of December 31, 2016

Classification	Status of shares (the number of minimum unit is 100 shares)								Status of shares below unit (shares)
	Government and local municipalities	Domestic Financial institutions	Financial instruments business operators	Other Domestic corporations	Foreign corporations, etc.		Individuals and others	Total	
					Others	Individuals			
Number of shareholders	1	59	65	765	697	577	124,476	126,640	—
Number of shares held (Unit)	1,170	2,062,859	300,082	2,519,200	5,176,236	6,288	4,258,094	14,323,929	29,700
Percentage of shares held (%)	0.01	14.40	2.09	17.59	36.14	0.04	29.73	100.00	—

(Note) 6,008,888 shares of treasury stocks are included as 60,088 units in the item of “Individuals and others” and as 88 shares in the “Status of shares below unit.”

## (7) Major Shareholders

		As of December 31, 2016	
Name	Address	Number of shares held (shares)	Percentage of shares held to the total number of issued shares (%)
Crimson Group, Inc.	ARK Hills Executive Tower N211, 1-14-5 Akasaka, Minato-ku, Tokyo	226,419,000	15.81
Hiroshi Mikitani	Minato-ku, Tokyo	176,155,800	12.30
Haruko Mikitani	Shibuya-ku, Tokyo	132,625,000	9.26
JP MORGAN CHASE BANK 380055 (Standing proxy: Settlement & Clearing Services Division, Mizuho Bank, Ltd.)	270 PARK AVENUE, NEW YORK, NY 10017, UNITED STATES OF AMERICA (SHINAGAWA INTERCITY Tower A, 2-15-1 Konan, Minato- ku, Tokyo)	54,539,905	3.81
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3 Hamamatsucho, Minato- ku, Tokyo	47,012,100	3.28
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11 Harumi, Chuo-ku, Tokyo	42,480,300	2.97
THE BANK OF NEW YORK MELLON 140044 (Standing proxy: Settlement & Clearing Services Division, Mizuho Bank, Ltd.)	225 LIBERTY STREET, NEW YORK, NEW YORK, U.S.A. (SHINAGAWA INTERCITY Tower A, 2-15-1 Konan, Minato- ku, Tokyo)	25,547,926	1.78
Culture Convenience Club Co., Ltd.	2-5-25 Umeda, Kita-ku, Osaka	20,662,000	1.44
STATE STREET BANK AND TRUST COMPANY 505103 (Standing proxy: Custody Operations Division, Tokyo Branch, The Hong Kong and Shanghai Banking Corporation Limited)	ONE LINCOLN STREET, BOSTON MA USA 02111 (3-11-1 Nihombashi, Chuo-ku, Tokyo)	17,742,876	1.24
JP MORGAN CHASE BANK 385164 (Standing proxy: Settlement & Clearing Services Division, Mizuho Bank, Ltd.)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM (SHINAGAWA INTERCITY Tower A, 2-15-1 Konan, Minato- ku, Tokyo)	17,699,000	1.23
Total	—	760,883,907	53.12



## (8) Status of Voting Rights

## 1) Issued shares

As of December 31, 2016

Classification	Number of shares (shares)	Number of voting rights	Details
Shares without voting rights	—	—	—
Shares with limited voting rights (treasury stock, etc.)	—	—	—
Shares with limited voting rights (others)	—	—	—
Shares with full voting rights (treasury stock, etc.)	(Treasury stock) Common stock 6,008,800	—	—
Shares with full voting rights (others)	Common stock 1,426,384,100	14,263,841	—
Shares below unit	Common stock 29,700	—	—
Total number of shares issued	1,432,422,600	—	—
Total voting rights held by all shareholders	—	14,263,841	—

(Note) 88 shares of treasury stock are included in "Shares below unit."

## 2) Treasury Stock, etc.

As of December 31, 2016

Shareholder	Address of shareholder	Number of shares held under own name (shares)	Number of shares held under the names of others (shares)	Total (shares)	Percentage of shares held to the total number of issued shares (%)
(Treasury stock)					
Rakuten, Inc.	1-14-1 Tamagawa, Setagaya-ku, Tokyo	6,008,800	—	6,008,800	0.42
Total	—	6,008,800	—	6,008,800	0.42

(9) Stock Option Plans

The Company applies a stock option plan. Schedule of the plan is as follows.

Date of resolution	Resolution at General Shareholders' Meeting held on March 27, 2008	Resolution at General Shareholders' Meeting held on March 27, 2009
Classification and number of persons received	Directors, Company Auditors and employees of the Company 2,035	Directors, Company Auditors and employees of the Company 2,379
Class of shares to be issued upon exercise of Share Options	Stated in (2) Status of the Share Options 1).	Stated in (2) Status of the Share Options 2).
Number of shares	3,305,000	1,198,900
Cash payment upon exercise of Share Options	Stated in (2) Status of the Share Options 1).	Stated in (2) Status of the Share Options 2).
Exercise period of Share Options	Same as the above	Same as the above
Conditions for exercise of Share Options	Same as the above	Same as the above
Matters concerning transfer of Share Options	Same as the above	Same as the above
Matters concerning collateral payment	Same as the above	Same as the above
Matters concerning issuance of Share Options accompanying organizational restructuring	Same as the above	Same as the above

Share Options (A)

Date of resolution	Resolution at General Shareholders' Meeting held on March 29, 2012	
Classification and number of persons received	Directors, Company Auditors and employees of the Company 6,043	Directors, Company Auditors and employees of the Company's subsidiaries 1,913
Class of shares to be issued upon exercise of Share Options	Stated in (2) Status of the Share Options 3), 4).	
Number of shares	2,595,300	
Cash payment upon exercise of Share Options	Stated in (2) Status of the Share Options 3), 4).	
Exercise period of Share Options	Same as the above	
Conditions for exercise of Share Options	Same as the above	
Matters concerning transfer of Share Options	Same as the above	
Matters concerning collateral payment	Same as the above	
Matters concerning issuance of Share Options accompanying organizational restructuring	Same as the above	

## Share Options (B)

Date of resolution	Resolution at General Shareholders' Meeting held on March 29, 2012	
Classification and number of persons received	Directors and employees of the Company's subsidiaries 15	
Class of shares to be issued upon exercise of Share Options	Stated in (2) Status of the Share Options 7).	
Number of shares	1,105,100	
Cash payment upon exercise of Share Options	Stated in (2) Status of the Share Options 7).	
Exercise period of Share Options	Same as the above	
Conditions for exercise of Share Options	Same as the above	
Matters concerning transfer of Share Options	Same as the above	
Matters concerning collateral payment	Same as the above	
Matters concerning issuance of Share Options accompanying organizational restructuring	Same as the above	
Date of resolution	Resolution at General Shareholders' Meeting held on March 28, 2013	
Classification and number of persons received	Directors, Company and employees of the Company 7,268	Directors, Company Auditors and employees of the Company's subsidiaries 2,359
Class of shares to be issued upon exercise of Share Options	Stated in (2) Status of the Share Options 9), 10).	
Number of shares	2,794,400	
Cash payment upon exercise of Share Options	Stated in (2) Status of the Share Options 9), 10).	
Exercise period of Share Options	Same as the above	
Conditions for exercise of Share Options	Same as the above	
Matters concerning transfer of Share Options	Same as the above	
Matters concerning collateral payment	Same as the above	
Matters concerning issuance of Share Options accompanying organizational restructuring	Same as the above	

Date of resolution	Resolution at General Shareholders' Meeting held on March 28, 2014		
Classification and number of persons received	Directors, Company and employees of the Company	7,808	Directors, Auditors, Company and employees of the Company's subsidiaries 2,952
Class of shares to be issued upon exercise of Share Options	Stated in (2) Status of the Share Options 14), 15).		
Number of shares	5,449,400		
Cash payment upon exercise of Share Options	Stated in (2) Status of the Share Options 14), 15).		
Exercise period of Share Options	Same as the above		
Conditions for exercise of Share Options	Same as the above		
Matters concerning transfer of Share Options	Same as the above		
Matters concerning collateral payment	Same as the above		
Matters concerning issuance of Share Options accompanying organizational restructuring	Same as the above		
Date of resolution	Resolution at General Shareholders' Meeting held on March 27, 2015		
Classification and number of persons received	Directors, Company and employees of the Company	8,431	Directors, Auditors, Company and employees of the Company's subsidiaries 4,770
Class of shares to be issued upon exercise of Share Options	Stated in (2) Status of the Share Options 21), 22).		
Number of shares	5,785,600		
Cash payment upon exercise of Share Options	Stated in (2) Status of the Share Options 21), 22).		
Exercise period of Share Options	Same as the above		
Conditions for exercise of Share Options	Same as the above		
Matters concerning transfer of Share Options	Same as the above		
Matters concerning collateral payment	Same as the above		
Matters concerning issuance of Share Options accompanying organizational restructuring	Same as the above		

Date of resolution	Resolution at General Shareholders' Meeting held on March 27, 2015	
Classification and number of persons received	Outside Directors of the Company 5	Auditors of the Company's subsidiaries 8
Class of shares to be issued upon exercise of Share Options	Stated in (2) Status of the Share Options 24).	
Number of shares	7,500	6,900
Cash payment upon exercise of Share Options	Stated in (2) Status of the Share Options 24).	
Exercise period of Share Options	Same as the above	
Conditions for exercise of Share Options	Same as the above	
Matters concerning transfer of Share Options	Same as the above	
Matters concerning collateral payment	Same as the above	
Matters concerning issuance of Share Options accompanying organizational restructuring	Same as the above	

Date of resolution	Resolution at General Shareholders' Meeting held on March 30, 2016	
Classification and number of persons received	Directors employees of the Company and the 9,050	Directors employees of the Company's subsidiaries and the 6,124
Class of shares to be issued upon exercise of Share Options	Stated in (2) Status of the Share Options 31), 32).	
Number of shares	9,159,300	
Cash payment upon exercise of Share Options	Stated in (2) Status of the Share Options 31), 32).	
Exercise period of Share Options	Same as the above	
Conditions for exercise of Share Options	Same as the above	
Matters concerning transfer of Share Options	Same as the above	
Matters concerning collateral payment	Same as the above	
Matters concerning issuance of Share Options accompanying organizational restructuring	Same as the above	

Date of resolution	Resolution at General Shareholders' Meeting held on March 30, 2016	Resolution at General Shareholders' Meeting held on March 30, 2016
Classification and number of persons received	Company Auditors of the Company's subsidiaries 10	Outside Directors of the Company 5
Class of shares to be issued upon exercise of Share Options	Stated in (2) Status of the Share Options 33).	Stated in (2) Status of the Share Options 33).
Number of shares	10,900	9,000
Cash payment upon exercise of Share Options	Stated in (2) Status of the Share Options 33).	Stated in (2) Status of the Share Options 33).
Exercise period of Share Options	Same as the above	Same as the above
Conditions for exercise of Share Options	Same as the above	Same as the above
Matters concerning transfer of Share Options	Same as the above	Same as the above
Matters concerning collateral payment	Same as the above	Same as the above
Matters concerning issuance of Share Options accompanying organizational restructuring	Same as the above	Same as the above

Date of resolution	Resolution at General Shareholders' Meeting held on March 30, 2017
Classification and number of persons received	Directors, Executive Officers and employees of the Company, the Company's subsidiaries and affiliates
Class of shares to be issued upon exercise of Share Options	Common stock
Number of shares	Maximum 19,000,000 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right
Exercise period of Share Options	(Note 2)
Conditions for exercise of Share Options	(Note 3)
Matters concerning transfer of Share Options	(Note 6)
Matters concerning collateral payment	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)

(Notes) 1 Number of shares to be issued upon exercise of Share Options (hereinafter referred to as "Issued Shares")

100 shares shall be issued for each Share Option. (The number of shares for each Share Option shall be hereinafter referred to as "Number of Shares.")

However, if the Company splits its common stock (including allotment of its common stock without compensation; hereinafter the same will apply) or consolidates its common stock, the number of shares to be issued upon exercise of each unit of such Share Options will be adjusted according to the following formula; provided that such adjustment will be made only to those that remain unexercised or uncanceled at the time of such adjustment and; provided, further, that if any fraction less than one share arises as a result of such adjustment, such fraction shall be discarded.

$$\text{Number of shares after adjustment} = \frac{\text{Number of shares before adjustment}}{\text{Ratio of split or consolidation}}$$

In addition, if the Company carries out a merger, a company split, share exchange, share transfer, or other action that makes it necessary to adjust the number of shares, the number of shares will be adjusted within a reasonable range, taking into account the

conditions of the merger, company split, share exchange, share transfer, or other similar action.

## 2 Exercise period of Share Options

The exercise period will be from the date on which one year has passed from the issuance of the Share Options (hereinafter “date of issuance”) to the date on which ten years have passed from the date of issuance. If the final day of the exercise period falls on a holiday of the Company, the final day shall be the working day immediately preceding the final day.

## 3 Conditions for exercise of Share Options

- 1) Those who received the allotment of the issue of Share Options shall remain Directors, Executive Officers, Company Auditors or employees of the Company, or its subsidiaries or affiliates (excluding Outside Directors) at the time of exercising such rights, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
- 2) Share Options shall not be inherited, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
- 3) Share Options shall not be offered for pledge or disposed of in any other way.
- 4) Share Options may be exercised by the Holder of Share Options, in whole or in part, according to the following categories.
  - i) The entire allotment of Share Options may not be exercised prior to the date on which one year has passed from the date of issuance.
  - ii) 15% of the allotment of Share Options may be exercised from the date on which one year has passed from the date of issuance to the date prior to the date on which two years have passed from the date of issuance (if a fraction less than one unit arises in the number of exercisable Share Options, such fraction will be discarded).
  - iii) 35% of the allotment of Share Options (if a portion of the allotment of Share Options had been exercised prior to the date on which two years have passed from the date of issuance, the total amount exercisable including the previously exercised portion shall be 35%) may be exercised from the date on which two years have passed from the date of issuance to the date prior to the date on which three years have passed from the date of issuance (if a fraction less than one unit arises in the number of exercisable Share Options, such fraction will be discarded).
  - iv) 65% of the allotment of Share Options (if a portion of the allotment of Share Options had been exercised prior to the date on which three years have passed from the date of issuance, the total amount exercisable including the previously exercised portion will be 65%) may be exercised from the date on which three years have passed from the date of issuance to the date prior to the date on which four years have passed from the date of issuance (if a fraction less than one unit arises in the number of exercisable Share Options, such fraction will be discarded).
  - v) The entire allotment of Share Options may be exercised from the date on which four years have passed from the date of issuance to the date on which ten years have passed from the date of issuance.
- 5) The Holders of Share Options have duties to pay all taxes (including but not limited to income tax, social security contributions, pensions, and employment insurance premium) specified by laws and regulations in relation to stock options and shares. In the case where the Company and its subsidiaries and affiliates is obliged to levy income tax, etc., the relevant company obliged to levy income tax, etc. will be able to levy tax from Holders of Share Options by the methods listed below.
  - i) Receipt by cash
  - ii) Appropriation of shares owned by the Holders of Share Options
  - iii) Deduction from salaries, bonuses, etc. of the Holders of Share Options
  - iv) Other methods specified by the Company
- 4 Matters concerning increase in capital stock and capital reserve by issuing of shares upon exercise of Share Options

- 1) Amount of increase in capital stock by issuing shares upon exercise of Share Options will be half of the upper limit of capital increase as calculated pursuant to the provisions of Article 17, Paragraph 1 of the Ordinance on Accounting of Companies, where any resultant fraction less than one yen will be rounded up.
  - 2) Amount of increase in capital reserve by issuing shares upon exercise of Share Options will be the upper limit of capital stock increase as described in 1) above minus the amount of increase in capital stock set out therein.
- 5 Reasons and conditions for the acquisition of Share Options
- 1) In the case that the proposal of any merger agreement under which the Company is dissolved, or any absorption-type company split (kyushu-bunkatsu) agreement or incorporation-type company split (shinsetsu-bunkatsu) plan in which the Company will be a splitting company, or any share exchange agreement or share transfer plan in which the Company will be a wholly owned subsidiary of another company is approved at a General Shareholders' Meeting of the Company, the Company may acquire Share Options at the date specifically determined by the Board of Directors of the Company without any compensation therefor.
  - 2) In the case that Holders of Share Options cease to accommodate the conditions of 3 1) above before exercising Share Options, the Company may acquire such Share Options at the date specifically determined by the Board of Directors of the Company without any compensation.
- 6 Restriction on the acquisition of Share Options by transfer
- Any acquisition of Share Options by transfer will require an approval of the Board of Directors of the Company by its resolution.
- 7 In the event the Company merges (limited to cases where the Company becomes a dissolving company), performs an absorption-type company split or an incorporation-type company split, or conducts a share exchange or a share transfer (hereinafter collectively "Organizational Restructuring"), Share Options of a corporation described in Article 236, Paragraph 1, Items 8.1 through 8.5 of the Companies Act (hereinafter "Restructured Company") will be delivered under the following conditions to Holders of Share Options remaining unexercised (hereinafter "Remaining Share Options") at the time when Organizational Restructuring takes effect. In this case, the Remaining Share Options will lapse and the Restructured Company will issue new Share Options. However, the foregoing will apply only to cases in which the delivery of Share Options of the Restructured Company according to the following conditions is stipulated in the merger agreement, the absorption-type company split agreement, the incorporation-type company split plan, the share exchange agreement, or the share transfer plan.
- 1) Number of Share Options of the Restructured Company to be delivered  
The Restructured Company shall deliver Share Options, the number of which will equal the number of Share Options held by the holder of the Remaining Share Options.
  - 2) Class of shares of the Restructured Company to be issued upon the exercise of Share Options  
Shares of common stock of the Restructured Company
  - 3) Number of shares of the Restructured Company to be issued upon the exercise of Share Options  
To be decided according to class and number of shares of the Restructured Company to be issued upon the exercise of Share Options and total number of Share Options above after taking into consideration the conditions, etc. of the Organizational Restructuring.
  - 4) Value of the assets to be contributed upon the exercise of Share Options  
The value of the assets to be contributed upon the exercise of each Share Options will be decided according to the value of the assets to be contributed upon the exercise of each Share Options after taking into consideration the conditions, etc. of the Organizational Restructuring.
  - 5) Exercise period of Share Options  
Starting from the later of either the first date of the exercise period of this Share Options or the date on which the Organizational Restructuring becomes effective and



- ending on the expiration date for the exercise of this Share Options.
- 6) Matters concerning increase in capital stock and capital reserve to be increased by issuing of shares by the Restructured Company upon the exercise of Share Options  
This is to be determined in accordance with matters concerning increase in common stock and legal capital reserve by issuing of shares upon exercise of Share Options.
  - 7) Restriction on acquisition of Share Options by transfer  
Acquisition of Share Options by transfer shall be subject to the approval of the Board of Directors of the Restructured Company (or by the majority decision of Directors if such company is not a company with Board of Directors).
  - 8) Reasons and conditions for the acquisition of Share Options  
This is to be determined in accordance with reasons and conditions for the acquisition of Share Options.
- 8 Rules pertaining to fractions of less than one share arising from the exercise of Share Options  
Fractions of less than one share in the number of shares to be delivered to holders of Share Options who exercised Share Options shall be discarded.

Date of resolution	Resolution at General Shareholders' Meeting held on March 30, 2017	Resolution at General Shareholders' Meeting held on March 30, 2017
Classification and number of persons received	Outside Directors of the Company, the Company's subsidiaries and affiliates	Company Auditors of the Company, the Company's subsidiaries and affiliates
Class of shares to be issued upon exercise of Share Options	Common stock	Common stock
Number of shares	Maximum 50,000 (Note 1)	Maximum 50,000 (Note 1)
Cash payment upon exercise of Share Options	¥1 per right	¥1 per right
Exercise period of Share Options	From March 31, 2021 to March 29, 2027 (Note 2)	From March 31, 2021 to March 29, 2027 (Note 2)
Conditions for exercise of Share Options	(Note 3)	(Note 3)
Matters concerning transfer of Share Options	(Note 6)	(Note 6)
Matters concerning collateral payment	—	—
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)	(Note 7)

(Notes) 1 Number of shares to be issued upon exercise of Share Options (hereinafter referred to as "Issued Shares")

100 shares shall be issued for each Share Option. (The number of shares for each Share Option shall be hereinafter referred to as "Number of Shares.")

However, if the Company splits its common stock (including allotment of its common stock without compensation; hereinafter the same will apply) or consolidates its common stock, the number of shares to be issued upon exercise of each unit of such Share Options will be adjusted according to the following formula; provided that such adjustment will be made only to those that remain unexercised or uncanceled at the time of such adjustment and; provided, further, that if any fraction less than one share arises as a result of such adjustment, such fraction shall be discarded.

$$\text{Number of shares after adjustment} = \frac{\text{Number of shares before adjustment}}{\text{Ratio of split or consolidation}}$$

In addition, if the Company carries out a merger, a company split, share exchange, share transfer, or other action that makes it necessary to adjust the number of shares, the number of shares will be adjusted within a reasonable range, taking into account the conditions of the merger, company split, share exchange, share transfer, or other similar action.

## 2 Exercise period of Share Options

The exercise period will be from the date on which one year has passed from the issuance of the Share Options (hereinafter "date of issuance") to the date on which ten years have passed from the date of issuance. If the final day of the exercise period falls on a holiday of the Company, the final day shall be the working day immediately preceding the final day.

## 3 Conditions for exercise of Share Options

1) Those who received the allotment of the issue of Share Options shall remain Directors, Executive Officers, Company Auditors or employees of the Company, or its subsidiaries or affiliates (excluding Outside Directors) at the time of exercising such rights, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.

2) Share Options shall not be inherited, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.

3) Share Options shall not be offered for pledge or disposed of in any other way.

4) The Holders of Share Options have duties to pay all taxes (including but not limited to income tax, social security contributions, pensions, and employment insurance premium) specified by laws and regulations in relation to stock options and shares. In

the case where the Company and its subsidiaries and affiliates is obliged to levy income tax, etc., the relevant company obliged to levy income tax, etc. will be able to levy tax from Holders of Share Options by the methods listed below.

- i) Receipt by cash
  - ii) Appropriation of shares owned by the Holders of Share Options
  - iii) Deduction from salaries, bonuses, etc. of the Holders of Share Options
  - iv) Other methods specified by the Company
- 4 Matters concerning increase in capital stock and capital reserve by issuing of shares upon exercise of Share Options
- 1) Amount of increase in capital stock by issuing shares upon exercise of Share Options will be half of the upper limit of capital increase as calculated pursuant to the provisions of Article 17, Paragraph 1 of the Ordinance on Accounting of Companies, where any resultant fraction less than one yen will be rounded up.
  - 2) Amount of increase in capital reserve by issuing shares upon exercise of Share Options will be the upper limit of capital stock increase as described in 1) above minus the amount of increase in capital stock set out therein.
- 5 Reasons and conditions for the acquisition of Share Options
- 1) In the case that the proposal of any merger agreement under which the Company is dissolved, or any absorption-type company split (kyushu-bunkatsu) agreement or incorporation-type company split (shinsetsu-bunkatsu) plan in which the Company will be a splitting company, or any share exchange agreement or share transfer plan in which the Company will be a wholly owned subsidiary of another company is approved at a General Shareholders' Meeting of the Company, the Company may acquire Share Options at the date specifically determined by the Board of Directors of the Company without any compensation therefor.
  - 2) In the case that Holders of Share Options cease to accommodate the conditions of 3 1) above before exercising Share Options, the Company may acquire such Share Options at the date specifically determined by the Board of Directors of the Company without any compensation.
- 6 Restriction on the acquisition of Share Options by transfer  
Any acquisition of Share Options by transfer will require an approval of the Board of Directors of the Company by its resolution.
- 7 In the event the Company merges (limited to cases where the Company becomes a dissolving company), performs an absorption-type company split or an incorporation-type company split, or conducts a share exchange or a share transfer (hereinafter collectively "Organizational Restructuring"), Share Options of a corporation described in Article 236, Paragraph 1, Items 8.1 through 8.5 of the Companies Act (hereinafter "Restructured Company") will be delivered under the following conditions to Holders of Share Options remaining unexercised (hereinafter "Remaining Share Options") at the time when Organizational Restructuring takes effect. In this case, the Remaining Share Options will lapse and the Restructured Company will issue new Share Options. However, the foregoing will apply only to cases in which the delivery of Share Options of the Restructured Company according to the following conditions is stipulated in the merger agreement, the absorption-type company split agreement, the incorporation-type company split plan, the share exchange agreement, or the share transfer plan.
- 1) Number of Share Options of the Restructured Company to be delivered  
The Restructured Company shall deliver Share Options, the number of which will equal the number of Share Options held by the holder of the Remaining Share Options.
  - 2) Class of shares of the Restructured Company to be issued upon the exercise of Share Options  
Shares of common stock of the Restructured Company
  - 3) Number of shares of the Restructured Company to be issued upon the exercise of Share Options  
To be decided according to class and number of shares of the Restructured Company to be issued upon the exercise of Share Options and total number of Share Options above after taking into consideration the conditions, etc. of the

Organizational Restructuring.

- 4) Value of the assets to be contributed upon the exercise of Share Options  
The value of the assets to be contributed upon the exercise of each Share Options will be decided according to the value of the assets to be contributed upon the exercise of each Share Options after taking into consideration the conditions, etc. of the Organizational Restructuring.
  - 5) Exercise period of Share Options  
Starting from the later of either the first date of the exercise period of this Share Options or the date on which the Organizational Restructuring becomes effective and ending on the expiration date for the exercise of this Share Options.
  - 6) Matters concerning increase in capital stock and capital reserve to be increased by issuing of shares by the Restructured Company upon the exercise of Share Options  
This is to be determined in accordance with matters concerning increase in common stock and legal capital reserve by issuing of shares upon exercise of Share Options.
  - 7) Restriction on acquisition of Share Options by transfer  
Acquisition of Share Options by transfer shall be subject to the approval of the Board of Directors of the Restructured Company (or by the majority decision of Directors if such company is not a company with Board of Directors).
  - 8) Reasons and conditions for the acquisition of Share Options  
This is to be determined in accordance with reasons and conditions for the acquisition of Share Options.
- 8 Rules pertaining to fractions of less than one share arising from the exercise of Share Options  
Fractions of less than one share in the number of shares to be delivered to holders of Share Options who exercised Share Options shall be discarded.

## 2. Status of Acquisition of Treasury Stock, etc.

Class of stocks, etc. Acquisition of common stocks falling under Article 155, Items 3 and 7 of the Companies Act

(1) Status of the Acquisition of Treasury Stock Resolved at Shareholders' Meetings  
Not applicable.

(2) Status of the Acquisition of Treasury Stock Resolved at the Meetings of the Board of Directors  
Acquisition in accordance with Article 155, Item 3 of the Companies Act

Classification	Number of shares (shares)	Total acquisition amount (millions of yen)
Status of resolution at the Meeting of the Board of Directors (February 20, 2017) (Acquisition period: February 22, 2017 to February 21, 2018)	120,000,000	100,000
Acquired treasury stock prior to the current fiscal year	—	—
Acquired treasury stock in the current fiscal year	—	—
Total number and amount of remaining treasury stock to be acquired based on the resolution	—	—
Unexercised portion as of the end of the current fiscal year (%)	—	—
Acquired treasury stock in the current period (Note)	2,824,700	3,198
Unexercised portion as of the filing date of securities report (%)	97.6	96.8

(Note) The number of shares of treasury stock acquired during the current period does not include the number of shares that were acquired during the period from March 1, 2017 to the filing date of securities report.

(3) Details of the Acquisition of Treasury Stock not Based on the Resolutions of Shareholders' Meetings or the Resolutions of the Meetings of the Board of Directors  
Acquisition in accordance with Article 155, Item 7 of the Companies Act

Classification	Number of shares (shares)	Total acquisition amount (thousands of yen)
Acquired treasury stock in the current fiscal year	100	132
Acquired treasury stock in the current period (Note)	—	—

(Note) The number of shares of treasury stock acquired during the current period does not include the number of shares due to purchase of shares below unit during the period from March 1, 2017 to the filing date of securities report.

#### (4) Status of the Disposition and Holding of Acquired Treasury Stock

Classification	Current fiscal year		Current period	
	Number of shares (shares)	Total disposition amount (Millions of Yen)	Number of shares (shares)	Total disposition amount (Millions of Yen)
Acquired treasury stock for which subscribers were solicited	—	—	—	—
Acquired treasury stock that was cancelled	—	—	—	—
Acquired Treasury stock transferred due to merger, stock exchange or company split	—	—	—	—
Others (—)	—	—	—	—
Number of treasury stock held (Note)	6,008,888	—	8,833,588	—

(Note) The number of shares of treasury stock held during the current period does not include the number of acquired shares during the period from March 1, 2017 to the filing date of securities report.

#### 3. Basic Policy on Dividends

As for the policy for shareholder return, the Company has been increasing or maintaining our dividend per share at a constant level, while taking into account the importance of making investments with a view to the 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 promptly and accurately
- Ensure sufficiency in comparison with risks associated with business activities and assets
- Maintain the level of financial rating required for conducting financial business, while sustaining the level of shareholders equity in compliance with regulatory requirements

For the current fiscal year, the Company decided to pay dividend of ¥4.5 per share (¥4.5 per share for the previous fiscal year) from retained earnings at the Meeting of the Board of Directors held on February 13, 2017, in accordance with the aforementioned basic policy.

As a general rule of the Company, distribution of dividends of surplus is decided by the Board of Directors, and payment in principle is made once a year in the form of a year-end dividend. Payment of dividends in accordance with the provisions of Article 459, Paragraph 1 of the Companies Act shall be subject to flexible judgment allowing for management circumstances and other factors.

(Note) Payment of dividends based on record date for the current fiscal year is as follows.

Resolution date	Total dividend amount (Millions of Yen)	Dividend per share (Yen)
February 13, 2017 Resolution at the Meeting of the Board of Directors	6,419	4.50

(Reference) Trends in dividend per share

Fiscal period	16th	17th	18th	19th	20th
Year-end	December 2012	December 2013	December 2014	December 2015	December 2016
Dividend per share (Yen)	3.00	4.00	4.50	4.50	4.50

#### 4. Changes in Share Prices

(1) The Highest and Lowest Share Prices by Fiscal Year during the Recent Five Years

Fiscal period	16th	17th	18th	19th	20th
Year-end	December 2012	December 2013	December 2014	December 2015	December 2016
Highest (yen)	912	1,637 *1,589	1,843	2,395	1,462
Lowest (yen)	641	672 *1,450	1,130	1,348	943

(Notes) 1 The above highest and lowest prices of the Company's share prices are recorded on the Osaka Securities Exchange JASDAQ (standard) for the period before July 15, 2013, the Tokyo Stock Exchange JASDAQ (standard) for the period from July 16, 2013 to December 2, 2013, and the First Section of the Tokyo Stock Exchange for the period since December 3, 2013.

2 Although the Company conducted the share split (a 100-for-1 share split on July 1, 2012 based on the resolution at the Board of Directors on February 20, 2012) during the 16th fiscal year, the highest and lowest prices of the fiscal year are stated on the assumption that the Company had conducted such share split at the beginning of the fiscal year.

3 \* marks indicate the highest and lowest prices recorded on the First Section of the Tokyo Stock Exchange. The Company changed the listing of its shares to the First Section of the Tokyo Stock Exchange as of December 3, 2013.

(2) The Highest and Lowest Share Prices by Month during the Recent Six Months

Month	July 2016	August	September	October	November	December
Highest (yen)	1,203	1,330	1,462	1,340	1,228	1,184
Lowest (yen)	1,046	1,106	1,291	1,209	1,116	1,110

(Note) The above highest and lowest prices of the Company's shares are recorded on the First Section of the Tokyo Stock Exchange.

5. Directors

11 male, 1 female (Percentage of female: 8.3%)

Title	Position	Name	Date of birth	Career summary		Term	Number of shares of the Company held (Thousands of shares)
Representative Director	Chairman and President and Chief Executive Officer	Hiroshi Mikitani	March 11, 1965	<p>April 1988 May 1993 February 1996 February 1997 February 2001 March 2004 April 2006 January 2008 February 2010 October 2011 August 2012 March 2015 August 2016</p>	<p>Joined The Industrial Bank of Japan, Limited Received MBA from Harvard Business School President and Representative Director (currently Representative Partner) of Crimson Group, Inc. (currently Crimson Group, LLC.) (current position) Founder and President and Representative Director of the Company Chairman and President and Representative Director of the Company (current position) Chief Executive Officer of the Company (current position) Chairman and Representative Director of Crimson Football Club, Inc. (currently Rakuten Football Club, Inc.) (current position) Chairman and Representative Director of Rakuten Baseball, Inc. Representative Director of Japan e-business Association (currently Japan Association of New Economy) (current position) Chairman of Tokyo Philharmonic Orchestra (current position) Chairman and Representative Director and team owner of Rakuten Baseball, Inc. (current position) Director of Lyft, Inc. (current position) Chairman and Director of Aspyrian Therapeutics, Inc. (current position)</p>	March 2017 to March 2018	176,155



Title	Position	Name	Date of birth	Career summary		Term	Number of shares of the Company held (Thousands of shares)
Representative Director	Executive Vice Chairman	Masayuki Hosaka	July 31, 1954	<p>April 1980 December 2003 May 2005 February 2006 March 2007 April 2009 February 2013 January 2014 March 2014 April 2016 July 2016</p>	<p>Joined ORIX Credit Corporation General Manager of Personal Finance Department of the Company Executive Officer of the Company President and Representative Director of Rakuten Credit, Inc. (currently Rakuten Card Co., Ltd.) Vice Chairman and Director of Rakuten Credit, Inc. President and Representative Director of Rakuten Credit, Inc. (current position) Managing Executive Officer of the Company Executive Vice President of the Company Representative Director of the Company (current position) Vice Chairman of the Company (current position) President, Card &amp; Payments Company of the Company (current position)</p>	March 2017 to March 2018	129
Director		Charles B. Baxter	April 19, 1965	<p>October 1998 March 2001 March 2003 July 2004 March 2011 February 2012 January 2015</p>	<p>CEO of eTranslate, Inc. Director of the Company Retired as Director of the Company Chairman of Wineshipping.com LLC (current position) Director of the Company (current position) Chairman and Director of Rakuten USA, Inc. (current position) Chairman of Reysn Holdco, Inc. (current position)</p>	March 2017 to March 2018	—

Title	Position	Name	Date of birth	Career summary		Term	Number of shares of the Company held (Thousands of shares)
Director		Ken Kutaragi	August 2, 1950	<p>April 1975 November 1993</p> <p>April 1999</p> <p>June 2000 November 2003</p> <p>December 2006</p> <p>June 2007</p> <p>June 2007</p> <p>October 2009</p> <p>March 2010</p> <p>June 2011</p>	<p>Joined Sony Corporation Director of Sony Computer Entertainment Inc. (currently Sony Interactive Entertainment Inc.)</p> <p>President and Representative Director of Sony Computer Entertainment Inc.</p> <p>Director of Sony Corporation Director, Executive Vice President and COO of Sony Corporation</p> <p>Representative Director, Chairman and Group CEO of Sony Computer Entertainment Inc. (currently Sony Interactive Entertainment Inc.)</p> <p>Honorary Chairman of Sony Computer Entertainment Inc.</p> <p>Senior technology advisor of Sony Corporation (current position)</p> <p>Representative Director and CEO of Cyber AI Entertainment Inc. (current position)</p> <p>Outside Director of the Company (current position)</p> <p>Outside Director of Nojima Corporation (current position)</p>	March 2017 to March 2018	10
Director		Joshua G. James	June 28, 1973	<p>October 1996 October 2009</p> <p>October 2010</p> <p>March 2011</p> <p>March 2015</p> <p>March 2016</p>	<p>Founder and CEO of Omniture, Inc.</p> <p>Senior Vice President and General Manager of Omniture Business Unit of Adobe Systems Inc.</p> <p>Founder and CEO of Domo, Inc. (current position)</p> <p>Outside Director of the Company</p> <p>Resigned as Outside Director of the Company</p> <p>Outside Director of the Company (current position)</p>	March 2017 to March 2018	1
Director		Takashi Mitachi	January 21, 1957	<p>April 1979 June 1992</p> <p>October 1993</p> <p>January 1999</p> <p>January 2005</p> <p>April 2011</p> <p>April 2013</p> <p>January 2016</p> <p>March 2016</p>	<p>Joined Japan Airlines Co., Ltd. Received MBA from Harvard Business School</p> <p>Joined The Boston Consulting Group</p> <p>Vice President of The Boston Consulting Group</p> <p>Japan Co-chair of The Boston Consulting Group</p> <p>Board Member of Japan Association for the World Food Programme (current position)</p> <p>Vice Chairman of KEIZAI DOYUKAI (Japan Association of Corporate Executives) (current position)</p> <p>Senior Partner &amp; Managing Director of The Boston Consulting Group (current position)</p> <p>Outside Director of the Company (current position)</p>	March 2017 to March 2018	—

Title	Position	Name	Date of birth	Career summary		Term	Number of shares of the Company held (Thousands of shares)
Director		Jun Murai	March 29, 1955	August 1984 March 1987 April 1987 April 1990 April 1997 May 2005 October 2009 September 2011 March 2012	Assistant at Information Processing Center of Tokyo Institute of Technology Received Ph. D in Engineering from Keio University Assistant at Large-scale Computer Center, the University of Tokyo Associate Professor of Faculty of Environment and Information Studies of Keio University Professor of Faculty of Environment and Information Studies of Keio University (current position) Vice-President of Keio Gijuku Educational Corporation Dean of Faculty of Environment and Information Studies of Keio University (current position) Outside Director of BroadBand Tower, Inc. (current position) Outside Director of the Company (current position)	March 2017 to March 2018	1
Director		Youngme Moon	April 24, 1964	June 1996 July 1997 July 1998 July 2003 September 2005 July 2007 July 2010 July 2014 March 2015 April 2016 April 2016	Received Ph. D from Stanford University Assistant Professor of Massachusetts Institute of Technology (MIT) Assistant Professor of Harvard Business School Associate Professor of Harvard Business School Director of Avid Technology, Inc. (current position) Donald K. David Professor of Business Administration of Harvard Business School (current position) Senior Associate Dean and Chair of the MBA Program and Professor of Harvard Business School Senior Associate Dean of Strategy and Innovation and Professor of Harvard Business School Outside Director of the Company (current position) Director of Unilever N.V. (current position) Director of Unilever PLC (current position)	March 2017 to March 2018	—

Title	Position	Name	Date of birth	Career summary		Term	Number of shares of the Company held (Thousands of shares)
Company Auditor		Yoshiaki Senoo	February 5, 1947	<p>April 1969 January 1993 November 1994 April 1999 June 2007 October 2007 June 2008 June 2010 March 2011 March 2011 March 2016</p>	<p>Joined The Sumitomo Bank, Limited (currently Sumitomo Mitsui Banking Corporation) Manager of Gotanda Branch of The Sumitomo Bank, Limited Senior Director of Sumitomo Capital Securities Co., Ltd. (currently Daiwa Securities Co. Ltd.) Company Auditor of Daiwa Securities SB Capital Markets Co., Ltd. (currently Daiwa Securities Co. Ltd.) Corporate Officer of Japan Post Holdings Co., Ltd. Executive Officer of Japan Post Holdings Co., Ltd. Managing Executive Officer of Japan Post Holdings Co., Ltd. Outside Company Auditor of Rakuten Bank, Ltd. (current position) Outside Company Auditor (Full-time) of the Company Outside Company Auditor of Rakuten Auction, Inc. Outside Company Auditor of the Company (current position)</p>	March 2015 to March 2019	—
Company Auditor		Takeo Hirata	January 16, 1960	<p>April 1982 June 1988 June 1995 July 1997 June 2000 January 2001 July 2002 April 2006 March 2007 August 2013 July 2016</p>	<p>Joined the Ministry of International Trade and Industry (currently Ministry of Economy, Trade, and Industry) Received a master's degree from Harvard Kennedy School Legal Examination Commissioner of General Affairs Division of Minister's Secretariat of International Trade and Industry Financial Cooperation Office of International Trade Policy Bureau of Ministry of International Trade and Industry Director of Petroleum Exploration and Production Division of Agency of Natural Resources and Energy of Ministry of International Trade and Industry Director of Petroleum and Natural Gas Division of Agency for Natural Resources and Energy of Ministry of Economy, Trade and Industry General Secretary of Japan Football Association Professor of Waseda University Graduate School of Sport Sciences (current position) Outside Company Auditor of the Company (current position) Special Adviser to the Cabinet (current position) Chairman of the Japan Society of Sports Industry (current position)</p>	March 2015 to March 2019	—

Title	Position	Name	Date of birth	Career summary		Term	Number of shares of the Company held (Thousands of shares)
Company Auditor		Katsuyuki Yamaguchi	September 22, 1966	<p>April 1991 Registered with Dai-ichi Tokyo Bar Association</p> <p>May 1997 Joined Nishimura &amp; Partners (currently Nishimura &amp; Asahi)</p> <p>Graduated from Columbia Law School (LL.M.)</p> <p>September 1997 Served Debevoise &amp; Plimpton LLP in New York</p> <p>January 1998 Admitted as Attorney-at-law in New York, USA</p> <p>May 1998 Served Debevoise &amp; Plimpton LLP in Paris</p> <p>February 1999 Served Simeon &amp; Associates in Paris</p> <p>July 1999 Reinstated at Nishimura &amp; Partners (currently Nishimura &amp; Asahi)</p> <p>August 2000 Attorney and Partner of Nishimura &amp; Partners (currently Nishimura &amp; Asahi) (current position)</p> <p>March 2001 Outside Company Auditor of the Company (current position)</p> <p>July 2007 Company Auditor of FreeBit Co., Ltd. (current position)</p> <p>September 2013 Outside Company Auditor of BrainPad Inc. (current position)</p> <p>June 2015 Outside Company Auditor of HAKUHODO DY HOLDINGS INCORPORATED (current position)</p>	March 2016 to March 2020	65	
Company Auditor (Full-time)		Takahide Uchida	October 21, 1954	<p>April 1977 Joined The Sumitomo Bank, Limited (currently Sumitomo Mitsui Banking Corporation)</p> <p>May 1983 Received a master's degree from The Wharton School of the University of Pennsylvania</p> <p>April 2001 Sumitomo Mitsui Banking Corporation (Otsuka Corporate Sales Manager)</p> <p>June 2003 Director of Training Institute of Human Resource Department of Sumitomo Mitsui Banking Corporation</p> <p>April 2006 Managing Director of Daiwa SB Investments Ltd.</p> <p>April 2010 Senior Managing Director of Daiwa SB Investments Ltd.</p> <p>March 2016 Outside Company Auditor (Full-time) of the Company (current position)</p>	March 2016 to March 2020	—	
Total							176,361

(Notes) 1 Five Directors, Ken Kutaragi, Jun Murai, Youngme Moon, Joshua G. James and Takashi Mitachi are all Outside Directors.

2 Four Company Auditors, Yoshiaki Senoo, Takeo Hirata, Katsuyuki Yamaguchi and Takahide Uchida are all Outside Company Auditors.

## 6. Corporate Governance

### (1) Status of Corporate Governance

#### 1) Basic Approach to Corporate Governance

The Group, aiming to maximize corporate value, has been implementing various measures by making rigorous corporate governance its highest priority.

#### 2) Corporate Governance

##### (a) Basic Structure of Corporate Governance and Reasons for Adoption

The Company has supervised management through a Board of Company Auditors comprised exclusively of Outside Company Auditors. Additionally, in order to separate the supervisory and executive roles of management, the Company has adopted an Executive Officer System by which the Board has retained the responsibility for management decision-making and supervision, while Executive Officers have been made responsible for the executive functions.

The Company's Board of Directors, led by the Outside Directors and Outside Company Auditors who are highly independent experts of a variety of fields, supervises the execution of duties from an objective perspective and enhances the effectiveness of corporate governance by engaging in frank and multilateral discussions on management.

With regard to business execution, the Company introduced an internal Company System in July 2016, in an effort to ensure the optimal allocation of management resources across all Group Companies. Following the ensuing changes to the internal reporting control framework, starting from the three months ended September 30, 2016, the Company changed its reportable segments to two segments: "Internet Services" and "FinTech." Accordingly, the Executive Officers under the supervision of the Representative Directors (Chief Executive Officer and Executive Vice Chairman), who serve as Segment Leaders, have assumed the function of business execution of the respective companies for which they are responsible.

##### (b) Corporate Organization

(Directors, Board of Directors, Executive Officers, etc.)

While it is stipulated in the Articles of Incorporation that the number of Directors shall be not more than 16, the Board of Directors consists of eight Directors, including five Outside Directors. Resolutions to appoint Directors must be approved by a majority of voting rights at an Annual General Shareholders' Meeting attended by shareholders holding at least one-third of voting rights.

In addition to regular meetings, the Board of Directors holds special meetings as required. At these meetings, Directors make decisions on important management matters and supervise Executive Officers' activities. Executive Officers, upon receiving business execution orders from the CEO, carry out business execution within the administrative authority set forth by the Company. To enhance the corporate value, as to a case that requires new capital expenditure including any investment, members, including Outside Directors and external experts, of the Investment Committee preliminarily deliberate on whether the case should be proceeded or not. The result of such deliberation shall be reported to the Board of Directors. Starting from April 2016, the Company has been holding intensive sessions every quarter held separately from the meetings of the Board of Directors, where Directors and Company Auditors mainly engage in debate about Group management strategy, etc., separately from the meetings of the Board of Directors. Participants discuss matters from a medium- to long-term perspective, rather than confining themselves to short-term issues or items discussed at the meetings of the Board of Directors. In addition, in August 2016, the Company completely revised the items to be discussed by and the standards for the Board of Directors in order to achieve prompt corporate management.

Status of business for major segments is shared on a monthly basis at the Budget Meeting,

which Executive Officers attend. We ensure appropriate and efficient conduct of business operations and management across the Group Companies.

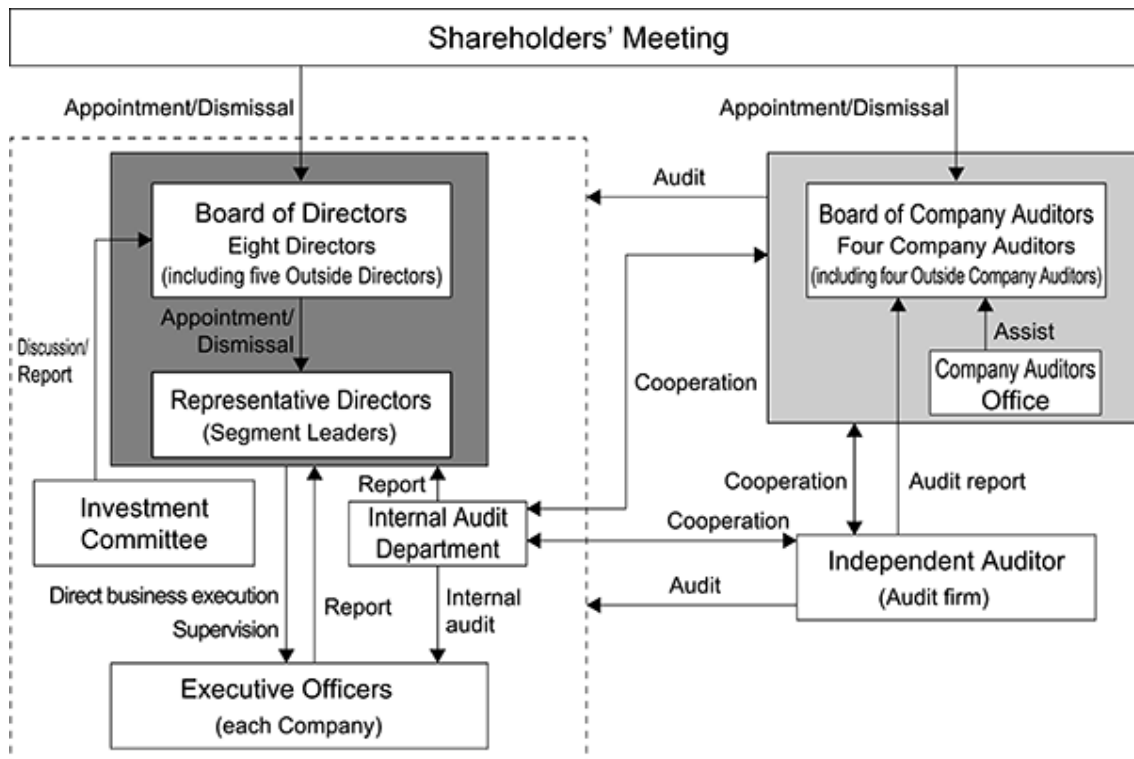
(Company Auditors and the Board of Company Auditors)

The Company has four Company Auditors, including one Full-time Auditor. All four are Outside Company Auditors.

A three-member Company Auditors' Office assists the Company Auditors in the performance of their duties. In addition to its regular meetings, the Board of Company Auditors holds special meetings as required.

In accordance with audit policies and plans established by the Board of Company Auditors, the Company Auditors attend meetings of the Board of Directors and other important management meetings, and receive reports about the state of the Company's operations from Directors, the Internal Audit Department and other sources. In addition, they check the operations of the Company and its subsidiaries. In addition, the Company Auditors receive audit reports from the independent auditors and audit financial statements and business reports. They also discuss various matters with the CEO.

<Corporate Governance Structure>



(c) Internal Control Systems and System to Ensure the Appropriateness of Operations of Subsidiaries of the Company Submitting Financial Reports (Including Risk Management Systems)

The Board of Directors of the Company has made the following resolutions concerning systems to ensure the performance of business operations of Directors comply with laws, regulations and the Articles of Incorporation, and that business operations of the Rakuten Group are conducted in an appropriate manner. The Company has created such systems in accordance with this resolution.

i) System for Ensuring Directors and Employees Comply with Laws, Regulations and the “Articles of Incorporation”

Rakuten, Inc. has stipulated the "Rakuten Group Code of Ethics" and it as well as the companies which are its subsidiaries (“Rakuten Group”), shall accordingly comply with all laws and regulations and undertake business actions with a high commitment to ethics. The proper execution of duties by Directors and employees of Rakuten Group shall be absolutely ensured through: operational audits carried out by the Internal Audit Department (an independent organizational unit under the direct control of the Representative Director and President); initiatives promoting Group-wide compliance under the leadership of the Chief Compliance Officer (CCO), who oversees the integration of Group-wide compliance management, and Company CCOs appointed according to Rakuten, Inc.’s internal Company System structure; and by reporting the status of compliance initiatives to the Group Compliance Committee.

Moreover, Outside Directors and Outside Company Auditors shall also thoroughly supervise and audit the execution of duties by Directors and employees. To technically and objectively verify compliance with laws, regulations and the “Articles of Incorporation”, lawyers shall be appointed for those positions.

Additionally, compliance education about the knowledge and sense of ethics needed as a member of Rakuten Group shall be carried out for all the executives and employees of Rakuten Group. Rakuten Group shall appropriately create a system for internal reporting that prevents retribution against those who report and consult through establishing a point of contact for executives and employees of Rakuten Group to consult and report about legal violations and other compliance issues. Rakuten Group will also create a system to collect information widely from outside the company.

ii) System for Managing and Protecting Information Related to the Execution of Duties by Directors

Any information, including written documents and digital records, regarding the execution of duties by Directors of Rakuten, Inc. shall be legally and properly preserved and managed in accordance with the Rakuten Group Regulations and other internal regulations. Additionally, Directors and Company Auditors shall have full-time access to all information relevant to this matter.

iii) System for Risk Management

The various risks that arise during the course of business operations shall be properly dealt with by the appropriate organizational units-in-charge based on each Group Companies’ internal regulations, detailed regulations, and operational manuals.

Regarding risk related to information management, the IT Security Governance Department of Rakuten, Inc. shall play a major role in thoroughly conducting risk management for the Group as a whole in order to minimize exposure to that risk. Moreover, the primary businesses of Rakuten Group possess the accreditation of the Information Security Management System (ISMS).

Regarding risk related to business activities, in order to manage risk appropriately that



may arise from Directors performing their duties in each business, Rakuten Group requires that all investment proposals are discussed in the Rakuten, Inc. Investment Committee and obtain the approval from the Rakuten, Inc. Board of Directors if they exceed a certain amount. Additionally, Rakuten Group aims to gather group-wide risk information through strengthening its emergency response system, risk assessments as well as thoroughly managing business risk.

iv) System Allowing Directors to Efficiently Carry Out their Duties

An appropriate and efficient decision making system to allow Directors of Rakuten Group to execute their duties shall be formulated based on the Rakuten Group Regulations, and other internal regulations. Moreover, transparency and speed in decision making shall be sought by promoting online internal procedures.

Prompt and flexible decision-making and execution of duties shall be promoted by having Executive Officers, who were appointed by Board of Directors, perform duties under the control of Directors.

v) System to Report Financial Information Appropriately

A system to ensure appropriate operations shall be established to guarantee proper financial reporting related to the disclosure of management information, financial information, etc. Appropriate accounting practices shall be used and disclosure will be timely. Further, the effectiveness of internal control over all related functions shall be assessed for compliance with the "Standard for the Management Assessment and Auditing of Internal Control Over Financial Reporting" which is based on the "Financial Instruments and Exchange Act".

vi) System for Rakuten Group to Only Engage in Appropriate Business Practices

In order to realize unified Group management, Rakuten, Inc. will stipulate Rakuten Group Regulations and other internal regulations dealing with company ideals, group governance, company management, risk management, compliance, etc. Regarding the execution of the subsidiary's significant duty, Rakuten Group shall create a system for approval and reporting to Rakuten, Inc. based on the Rakuten Group Authority Table and Rakuten Group Guidelines. The RGR will protect the independence of the subsidiaries while also creating the needed framework for business operations which will be followed by the entire Rakuten Group.

In addition, the Internal Audit Department, which is an independent organization under the Representative Director and President, shall ensure the appropriateness of operations by having a strong relationship with the organizational unit-in-charge of internal audit of each subsidiary and by conducting internal audits on Rakuten Group as a whole.

vii) Requests from Auditors for Employees' Assistance and Employees' Independence from Directors

To assist the duties of Company Auditors, the Company Auditors Office shall be established under the Board of Company Auditors, and the Company Auditors may give orders to the employees belonging to the Company Auditors Office as the need arises. Additionally, when the employees assist Company Auditors, the effectiveness of the orders from Company Auditors shall be ensured by not receiving orders from Directors and the approval from the Company Auditors for transfer and assessment of the employee's performance shall be obtained.

viii) System for Directors and Employees to Report to Company Auditors and for Company Auditors to Carry Out Effective Audits

Directors and employees of Rakuten Group shall give all legally required reports to Company Auditors and provide additional necessary reports and information if the Company Auditor requests it. Rakuten, Inc. will ensure the effectiveness of audits through prohibiting the retribution for reporting against those who report to the company auditors.

Additionally, if Rakuten, Inc. receives a request for prepayment of expenses or

repayment from Company Auditors, it shall pay the expense or debt promptly unless the expenses are proved not to be necessary for the execution of the Company Auditor's duty.

### 3) Internal Audits, Company Auditor Organization, Personnel and Procedures

Internal audits are conducted by the 18-member (excluding General Manager) Internal Audit Department, which is an independent unit reporting directly to the CEO. Head office divisions, business units and group companies are all subject to internal auditing. Audits are implemented under plans approved by the Board of Directors with the aim of verifying the legality, appropriateness and efficiency of operations. The purpose of the internal audit process is to ensure that business operations are conducted in an appropriate manner by identifying any improvements that may be required, and by monitoring the implementation of those improvements. Audit results are reported to the Board of Directors, the CEO, the Group Compliance Committee responsible for areas covered by audits, and the Company Auditors. The Internal Audit Department also cooperates with the Board of Company Auditors. The Internal Audit Department is also working to enhance the effectiveness of internal audits throughout the group by working closely with audit units in the Group Companies. In addition to holding regular exchanges of opinions and conducting information sharing, the Group Companies shares the results of the internal audits with the Independent Auditors, as necessary.

Information about audits by Company Auditors can be found under "2) Corporate Governance (b) Corporate Organization (Company Auditors and the Board of Company Auditors)."

### 4) Outside Directors and Outside Company Auditors

The Company's eight-member Board of Directors currently includes five Outside Directors, and all four Company Auditors are Outside Company Auditors. Outside Director Ken Kutaragi is a senior technology advisor of Sony Corporation, which has a business relationship including sales of goods with the Company. The ratio of the amount of transactions between Sony Corporation and the Company in fiscal 2016 is less than 1% of the combined total amount of Cost of sales and Selling, general and administrative expenses at the Company for the year. Outside Director Joshua G. James is Founder and CEO of Domo, Inc., which has a business relationship including provision of services with the Company. The ratio of the amount of transactions between Domo, Inc. and the Company in fiscal 2016 is less than 1% of the combined total amount of Cost of sales and Selling, general and administrative expenses at the Company for the year. Outside Director Takashi Mitachi is Vice Chairman of KEIZAI DOYUKAI (Japan Association of Corporate Executives), to which the Company pays membership fees. The ratio of the amount of fees in fiscal 2016 is less than 1% of the combined total amount of Cost of sales and Selling, general and administrative expenses at the Company for the year. Outside Director Jun Murai is Dean and Professor of the Faculty of Environment and Information Studies of Keio University, which shares a role in operating an international standardization body to which Company pays membership fees. The ratio of the amount of fees in fiscal 2016 is less than 1% of the combined total amount of Cost of sales and Selling, general and administrative expenses at the Company for the year. He is also an Outside Director of BroadBand Tower, Inc., which has a business relationship involving provision of services with the Company. The ratio of the amount of transactions between BroadBand Tower, Inc. and the Company in fiscal 2016 is less than 1% of the combined total amount of Cost of sales and Selling, general and administrative expenses at the Company for the year. Outside Company Auditor Takeo Hirata is Chairman of Japan Society of Sports Industry, to which the Company pays membership fees. The ratio of the

amount of fees in fiscal 2016 is less than 1% of the combined total amount of Cost of sales and Selling, general and administrative expenses at the Company for the year. Outside Company Auditor Katsuyuki Yamaguchi is an Attorney and Partner of Nishimura & Asahi and an Outside Company Auditor of BrainPad Inc., with which the Company has transactions including provision of services. The ratio of the amounts of transactions between Nishimura & Asahi and BrainPad Inc. and the Company in fiscal 2016 is less than 1% of the combined total amount of Cost of sales and Selling, general and administrative expenses at the Company for the year, respectively.

Mr. Ken Kutaragi, Mr. Joshua G. James and Mr. Jun Murai, Outside Directors, and Mr. Katsuyuki Yamaguchi, Outside Company Auditor, respectively hold the Company's shares, and the numbers of shares held by them are as described in the respective columns of "Number of shares held" in "IV. Information on the Company Submitting Financial Reports 5. Directors." There are no other personal, capital or business relationships or significant interests.

With the aim of ensuring a high level of transparency and strong management supervision, thereby increasing the corporate value, the Company, in selecting its Independent Directors and Independent Company Auditors, determines persons who, in principle, do not fall under any of the following criteria to be independent, and Outside Directors Ken Kutaragi, Takashi Mitachi, Jun Murai and Youngme Moon and the Outside Company Auditor Takeo Hirata are appointed to the position of Independent Director/Company Auditor specified by the regulations of the Tokyo Stock Exchange.

- a. Executive of the parent company or a fellow subsidiary of the Company (\*1)
- b. A party whose major client is the Company or an executive thereof or a major client (\*2) of the Company or an executive thereof
- c. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as Directors or Company Auditors
- d. A person or party who has recently fallen under any of a) through c) above (\*3)
- e. A close relative of a person who falls under any of a) through d) above, or a close relative of an executive of the Company or its subsidiary (including those who were executives until recently) (including a close relative of non-executive Director or accounting advisor of the Company or its subsidiary, in the case where Outside Company Auditor is appointed as an Independent Company Auditor)

\*1: An executive as stipulated in Article 2, Paragraph 3, Item 6 of the Ordinance for Enforcement of the Companies Act, which includes employees in addition to executive Directors, and does not include Company Auditors.

\*2: Refers to cases in which, using the transaction amount with the Company as the criterion, the sum of the Company's total purchase amount accounts for 1% or more of the total amount of sales, general and administrative expenses.

\*3: Cases which are considered, in effect, equivalent to the present condition, such as where a party or person fell under any of a) through c) at the time the contents of the proposal of the General Shareholders' Meeting are determined for the election of such Independent Directors or Independent Company Auditors as Outside Directors or Outside Company Auditors.

There are five Outside Directors. Mr. Ken Kutaragi, has extensive knowledge of the entertainment business and technology and wide-ranging experience in business management. Mr. Takashi Mitachi has extensive experience and expertise mainly as a business consultant. Mr. Jun Murai has a distinguished background as an academic expert in Internet technology. Mr. Joshua G. James has specialized knowledge of Internet services and wealth of experience in the management of Internet service businesses in North America. And Ms. Youngme Moon has a distinguished background mainly as an academic in the field of business management. All Outside Directors have been appointed for their ability to provide management with advice and recommendations based on their experience and expert knowledge.

There are four Outside Company Auditors. Mr. Takahide Uchida has extensive knowledge and experience mainly in the fields of finance and business management. Mr. Yoshiaki Senoo has extensive knowledge and experience relating primarily to finance business, business management and compliance. Mr. Takeo Hirata brings wide-ranging expert knowledge and experience relating primarily to sport and education. Mr. Katsuyuki Yamaguchi was selected as a person who could contribute to the Company's audit systems through his extensive knowledge and experience, especially as an attorney, and through his perspectives as an expert on corporate law. Documents for meetings of the Board of Directors are forwarded in advance to the Outside Directors and Outside Company Auditors, who, if necessary, can also seek advance briefings from and consultations with the units concerned. As noted above, the Outside Company Auditors also actively exchange views and collaborate with the Internal Audit Department and the independent auditors.

The Company has signed an agreement with each of its Outside Directors and Outside Company Auditors under the provisions of Article 427, Paragraph 1 of the Companies Act. This agreement is summarized below:

Provided that duties have been carried out in good faith and without gross negligence, the total liability in situations as defined in Article 423, Paragraph 1 of the Companies Act will be limited to the sum of the amounts stipulated in the following items:

- i. Two times the bigger of the sum of fees, bonuses and other payments received or asset benefits received in the year that includes the date on which the event that resulted in the liability occurred, and in the preceding year, or the value of asset benefits to be received (excluding benefits stipulated under Item ii below).
- ii. Two times the smaller of the sum of retirement bonuses or asset benefits that are in the nature of retirement bonuses, or that amount divided by the number of years during which the office of Outside Director or Outside Company Auditor was held.
- iii. The amounts stipulated below if Share Options, as defined in Article 238, Paragraph 3 of the Companies Act, were exercised or transferred after the person was appointed as an Outside Director or an Outside Company Auditor.

1. If the Rights have been Exercised

An amount calculated by subtracting the sum of the issue price of the Share Options and the paid-in value per share on the exercise date from the market price per share on the exercise date and multiplying the result by the number of shares granted through the exercise of the Share Options.

2. If the Rights have been Transferred

An amount calculated by subtracting the issue price of the Share Options from the transfer price and multiplying the result by the number of Share Options.

5) Remuneration for Directors and Company Auditors

- (a) Total Amounts of Fees, etc., for Each Category of Officers of the Company Submitting Financial Reports, Total Amount of Each Type of Remuneration Paid, and Number of Officers Eligible Category of Officer Total Amount of Fees, etc.

Category of officer	Total amount of fees, etc. (Millions of Yen)	Total amount of each type of remuneration (Millions of Yen)			Number of recipients
		Basic fees	Stock options	Bonuses	
Directors (excluding Outside Directors)	429	302	127	—	11
Company Auditors (excluding Outside Company Auditors)	—	—	—	—	0
Outside Directors and Company Auditors	149	131	18	—	11

- (b) Consolidated Total Amount of Fees, etc., for Directors and Company Auditors of the Company Submitting Financial Reports

Name and category of officer	Total amount of fees, etc. (Millions of Yen)	Category of company	Total amount of each type of remuneration (Millions of Yen)		
			Basic fees	Stock options	Bonuses
Masayuki Hosaka (Vice Chairman and Representative Director)	163	The filing company	112	51	—

- (c) Total Amount of Significant Items Included in Salaries and Bonuses Paid to Directors who are Also Employees  
Not applicable.

- (d) Policies Concerning Amounts of Remuneration for Directors and Company Auditors, and the Adoption of Methods for Calculating Those Amounts

Total amount of remuneration for Directors and Company Auditors are set by a resolution of Annual General Shareholders' Meeting. A resolution of the 18th Annual General Shareholders' Meeting held on March 27, 2015, set the upper limit for total remuneration over the year at ¥1,400 million (including ¥200 million for Outside Directors).

The company determines the compensation of each director based on the degree of achievement of the Group Operating profit, the results of each Group Company and business, individual evaluations and market environment.

Total remuneration for Company Auditors is within the upper limit of ¥120 million as stipulated in a resolution of the 10th Annual General Shareholders' Meeting held on March 29, 2007.

6) Status of Securities Held by the Company

- (a) Shares Held for Other Reasons than Pure Investment Purpose

Number of stock names 11

Total balance sheet amount ¥5,149 million

- (b) Nature of Holdings, Stock Names, Number of Shares, Total Amount Recorded in Balance Sheet, Purpose of Holdings of the Shares Held for Other Reasons than Pure Investment Purpose

(Previous fiscal year)

Special Investment Securities

Stock name	Number of shares (shares)	Amount recorded in balance sheet (Millions of Yen)	Purpose of holding
Brangista. Inc	1,502,400	2,259	To enhance business relationship
FreeBit Co., Ltd.	199,200	185	To enhance business relationship
Alpen Co., Ltd.	18,000	36	To enhance business relationship

(Current fiscal year)

Special Investment Securities

Stock name	Number of shares (shares)	Amount recorded in balance sheet (Millions of Yen)	Purpose of holding
Brangista. Inc	1,502,400	3,217	To enhance business relationship
FreeBit Co., Ltd.	199,200	160	To enhance business relationship
Alpen Co., Ltd.	18,000	38	To enhance business relationship

- (c) Shares Held Purely for Investment Purposes  
Not applicable.

7) Audits by Independent Auditors

The Company has entered into an auditing agreement with Ernst & Young ShinNihon LLC, which conducts financial audits in accordance with the Japanese Companies Act and the Financial Instruments and Exchange Act.

In the current fiscal year, audits were conducted by the following certified public accountants and assistants.

[Certified public accountants]

Designated and Engagement Partner	Tokuya Takizawa
Designated and Engagement Partner	Kenji Takagi
Designated and Engagement Partner	Kenji Kuroki

\* Since these accountants have conducted audits for fewer than or equal to seven years, the number of years has been omitted.

[Numbers of Assistants]

26 certified public accountants and 45 others

8) Other Provisions of the Articles of Incorporation

- (a) Matters Requiring Resolutions of Shareholders' Meetings that Can Be Implemented by Resolutions of the Board of Directors

The Articles of Incorporation of the Company state that, unless otherwise stipulated in laws and regulations, the Board of Directors is authorized to pass resolutions on matters pertaining to the distribution of surpluses and other matters, as stipulated in the items of Article 459, Paragraph 1

of the Companies Act, without resolutions of shareholders' meetings. The purpose of this provision is to allow the Board of Directors to implement a flexible dividend policy.

(b) Items Requiring Special Resolutions of Shareholders' Meetings

The Articles of Incorporation of the Company state that matters requiring resolutions of shareholders' meetings, as stipulated in Article 309, Paragraph 2 of the Companies Act, require resolutions supported by at least two-thirds of voting rights at shareholders' meetings attended by shareholders holding at least one-third of voting rights. The purpose of this provision is to facilitate the administration of shareholders' meetings by easing the quorum requirements for special resolutions.

(2) Audit Fees, etc.

1) Audit Fees Paid to Certified Public Accountants, etc.

Item	2015		2016	
	Millions of Yen		Millions of Yen	
	Fees paid for audit certification services	Fees paid for non-audit services	Fees paid for audit certification services	Fees paid for non-audit services
Company submitting financial reports	98	60	107	10
Consolidated subsidiaries	143	8	133	6
Total	241	68	240	16

2) Other Important Matters Pertaining to Fees

Fiscal year ended December 31, 2015

Some consolidated subsidiaries of the Company are audited by EY member firms, which belong to the same network as Ernst & Young ShinNihon LLC, independent auditor of the Company and fees paid to the firms amounted to ¥191 million.

Fiscal year ended December 31, 2016

Some consolidated subsidiaries of the Company are audited by EY member firms, which belong to the same network as Ernst & Young ShinNihon LLC, independent auditor of the Company and fees paid to the firms amounted to ¥173 million.

3) Non-Audit Services Provided to the Company Submitting Financial Reports by Certified Public Accountants and Other Audit Personnel

Fiscal year ended December 31, 2015

The non-audit services for which the Company pays fees to certified public accountants and other audit personnel consist primarily of commission of preparation of a comfort letter associated with the issuance of new shares.

Fiscal year ended December 31, 2016

The non-audit services for which the Company pays fees to certified public accountants and other audit personnel consist primarily of advisory services, etc. relating to internal controls over financial reporting.

4) Policy on Setting of Audit Fees

The policy of the Company regarding audit fees paid to certified public accountants and other

audit personnel is to pay fees that are appropriate based on relevant factors, including the size of the Company, the characteristics of its business activities, and the number of days required for audits, upon obtaining the consent of the Company's Board of Company Auditors.



## V. Financial Information

### 1. Basis of Preparation of Consolidated Financial Statements

- (1) The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS”), as issued by the International Accounting Standards Board, as the Company satisfies the requirements of a “specified company” prescribed in Article 1-2 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976; hereinafter referred to as the “Rules on Consolidated Financial Statements”) as provided in Article 93.
- (2) Differences in main accounting items between the consolidated financial statements prepared in accordance with IFRS and those prepared in accordance with Japanese generally accepted accounting principles (“JGAAP”) are stated in “II. Business Overview 1. Summary of Results.”

### 2. Specific Efforts to Ensure the Appropriateness of Consolidated Financial Statements

The Company has undertaken specific measures to ensure the appropriateness of its consolidated financial statements, the details of which are as follows.

In order to establish a structure for adequately understanding the accounting standards in detail and appropriately responding to changes in them, the Company has become a member of the Financial Accounting Standards Foundation and has been expanding its understanding of accounting standards as well as responding to new standards.

### 3. Establishment of a Structure to Enable the Proper Preparation of Consolidated Financial Statements in Accordance with IFRS

The Company continually works towards the establishment of a structure that enables it to properly prepare consolidated financial statements under IFRS, the details of which are as follows.

In terms of IFRS application, the Company keeps updated on the latest standards by obtaining press releases and statements of standards released by the International Accounting Standards Board, as necessary. Additionally, in order to properly prepare consolidated financial statements in accordance with IFRS, the Company has prepared Group Accounting Policies in accordance with IFRS, and has conducted its accounting accordingly.

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

(Millions of Yen)

	Note	December 31, 2015	December 31, 2016
<b>Assets</b>			
Cash and cash equivalents	5	¥501,029	¥548,269
Accounts receivable — trade	6	104,011	117,088
Financial assets for securities business	7	1,109,299	1,120,684
Loans for credit card business	8	833,820	1,014,708
Investment securities for banking business	9	257,769	157,315
Loans for banking business	10	444,044	585,800
Investment securities for insurance business	11	15,308	18,071
Derivative assets	12	21,312	21,813
Investment securities	13	151,237	173,076
Other financial assets	14	161,640	137,678
Investments in associates and joint ventures	16	16,912	41,130
Property, plant and equipment	17	48,442	53,271
Intangible assets	18	514,752	506,087
Deferred tax assets	25	28,252	25,681
Other assets		62,126	84,001
<b>Total assets</b>		<b>4,269,953</b>	<b>4,604,672</b>
<b>Liabilities</b>			
Accounts payable — trade		162,606	181,279
Deposits for banking business	19	1,366,784	1,505,946
Financial liabilities for securities business	20	987,244	1,059,639
Derivative liabilities	12	10,623	6,598
Bonds and borrowings	21	649,195	711,104
Other financial liabilities	22	268,448	297,489
Income taxes payable		24,718	12,674
Provisions	23	54,129	65,235
Policy reserves and others for insurance business	24	21,635	24,462
Deferred tax liabilities	25	20,417	17,428
Other liabilities		40,141	42,472
<b>Total liabilities</b>		<b>3,605,940</b>	<b>3,924,326</b>
<b>Equity</b>			
Equity attributable to owners of the Company			
Common stock	26	203,588	204,562
Capital surplus	26	208,677	211,785
Retained earnings	26	176,834	210,554
Treasury stock	26	(3,627)	(3,627)
Other components of equity		76,572	56,973
<b>Total equity attributable to owners of the Company</b>		<b>662,044</b>	<b>680,247</b>
Non-controlling interests		1,969	99
<b>Total equity</b>		<b>664,013</b>	<b>680,346</b>
<b>Total liabilities and equity</b>		<b>4,269,953</b>	<b>4,604,672</b>

## 2) Consolidated Statements of Income

(Millions of Yen)

	Note	Year ended December 31, 2015	Year ended December 31, 2016
Continuing operations			
Revenue	27	¥713,555	¥781,916
Operating expenses	28	601,001	677,598
Other income	29	26,991	5,323
Other expenses	29	6,721	6,305
Impairment loss	17, 18	38,135	25,359
Operating income		94,689	77,977
Financial income	30	108	256
Financial expenses	30	3,796	3,501
Share of income (loss) of associates and joint ventures	16	986	(809)
Income before income tax		91,987	73,923
Income tax expense	25	47,707	35,922
Net income		44,280	38,001
Net income attributable to:			
Owners of the Company		44,436	37,995
Non-controlling interests		(156)	6
Net income		44,280	38,001

(Yen)

Earnings per share attributable to owners of the Company:			
Basic	31	¥32.33	¥26.65
Diluted	31	32.09	26.44

## 3) Consolidated Statements of Comprehensive Income

(Millions of Yen)

	Note	Year ended December 31, 2015	Year ended December 31, 2016
Net income		¥44,280	¥38,001
Other comprehensive income			
Items that will not be reclassified to net income:			
Gains (losses) on financial assets measured at fair value through other comprehensive income	38	22,603	1,238
Income tax effect of gains and losses on financial assets measured at fair value through other comprehensive income	25	(4,948)	(495)
Share of other comprehensive income of associates and joint ventures	16	13	6
Total items that will not be reclassified to net income		17,668	749
Items that will be reclassified to net income:			
Foreign currency translation adjustments		(10,713)	(16,817)
Gains (losses) on cash flow hedges recognized in other comprehensive income	33	(458)	(304)
Income tax effect of gains or losses on cash flow hedges recognized in other comprehensive income	25 33	133	116
Gains (losses) on cash flow hedges reclassified from other comprehensive income to net income	33	551	423
Income tax effect of gains or losses on cash flow hedges reclassified from other comprehensive income to net income	25 33	(190)	(137)
Share of other comprehensive income of associates and joint ventures	16	(155)	(1)
Total items that will be reclassified to net income		(10,832)	(16,720)
Other comprehensive income, net of tax		6,836	(15,971)
Comprehensive income		51,116	22,030
Comprehensive income attributable to:			
Owners of the Company		51,263	22,023
Non-controlling interests		(147)	7
Comprehensive income		51,116	22,030

#### 4) Consolidated Statements of Changes in Equity

(Millions of Yen)

	Note	Other components of equity							Total equity attributable to owners of the Company	Non-controlling interests	Total equity	
		Common stock	Capital surplus	Retained earnings	Treasury stock	Foreign currency translation adjustments	Financial instruments measured at fair value through other comprehensive income	Cash flow hedges				Total other components of equity
As of January 1, 2015		¥111,602	¥118,528	¥124,796	¥(3,649)	¥51,354	¥19,453	¥(522)	¥70,285	¥421,562	¥6,524	¥428,086
Cumulative effects of changes in accounting policies		—	—	13,244	—	—	—	—	—	13,244	103	13,347
Adjusted balance		111,602	118,528	138,040	(3,649)	51,354	19,453	(522)	70,285	434,806	6,627	441,433
Comprehensive income												
Net income				44,436						44,436	(156)	44,280
Other comprehensive income, net of tax						(10,877)	17,668	36	6,827	6,827	9	6,836
Total comprehensive income		—	—	44,436	—	(10,877)	17,668	36	6,827	51,263	(147)	51,116
Transactions with owners												
Contributions by and distributions to owners												
Issuance of common stock	26, 35	91,986	91,986							183,972		183,972
Direct expenses related to issuance of common stock			(781)							(781)		(781)
Cash dividends paid	26, 36			(5,952)						(5,952)		(5,952)
Reclassified from other components of equity to retained earnings	37			540			(540)		(540)	—		—
Others	26, 35		3,900	(230)	22					3,692		3,692
Total contributions by and distributions to owners		91,986	95,105	(5,642)	22	—	(540)	—	(540)	180,931	—	180,931
Changes in ownership interests in subsidiaries												
Issuance of common stock											20	20
Acquisitions and disposals of non-controlling interests	45		(4,955)							(4,955)	(1,701)	(6,656)
Others			(1)							(1)	(2,830)	(2,831)
Total changes in ownership interests in subsidiaries		—	(4,956)	—	—	—	—	—	—	(4,956)	(4,511)	(9,467)
Total transactions with owners		91,986	90,149	(5,642)	22	—	(540)	—	(540)	175,975	(4,511)	171,464
As of December 31, 2015		¥203,588	¥208,677	¥176,834	¥(3,627)	¥40,477	¥36,581	¥(486)	¥76,572	¥662,044	¥1,969	¥664,013
Comprehensive income												
Net income				37,995						37,995	6	38,001

	Note	Other components of equity							Total equity attributable to owners of the Company	Non-controlling interests	Total equity	
		Common stock	Capital surplus	Retained earnings	Treasury stock	Foreign currency translation adjustments	Financial instruments measured at fair value through other comprehensive income	Cash flow hedges				Total other components of equity
Other comprehensive income, net of tax						(16,819)	749	98	(15,972)	(15,972)	1	(15,971)
Total comprehensive income		—	—	37,995	—	(16,819)	749	98	(15,972)	22,023	7	22,030
Transactions with owners												
Contributions by and distributions to owners												
Issuance of common stock	26, 35	974	975							1,949		1,949
Cash dividends paid	26, 36			(6,410)						(6,410)		(6,410)
Reclassified from other components of equity to retained earnings	37			3,627			(3,627)		(3,627)	—		—
Others	26, 35		4,344	(1,492)	(0)					2,852		2,852
Total contributions by and distributions to owners		974	5,319	(4,275)	(0)	—	(3,627)	—	(3,627)	(1,609)	—	(1,609)
Changes in ownership interests in subsidiaries												
Issuance of common stock											181	181
Acquisitions and disposals of non-controlling interests	45		(2,252)							(2,252)	(1,891)	(4,143)
Others			41							41	(167)	(126)
Total changes in ownership interests in subsidiaries		—	(2,211)	—	—	—	—	—	—	(2,211)	(1,877)	(4,088)
Total transactions with owners		974	3,108	(4,275)	(0)	—	(3,627)	—	(3,627)	(3,820)	(1,877)	(5,697)
As of December 31, 2016		204,562	211,785	210,554	(3,627)	23,658	33,703	(388)	56,973	680,247	99	680,346

## 5) Consolidated Statements of Cash Flows

(Millions of Yen)

	Note	Year ended December 31, 2015	Year ended December 31, 2016
<b>Cash flows from operating activities</b>			
Income before income tax		¥91,987	¥73,923
Depreciation and amortization		40,122	44,257
Impairment loss	17, 18	38,135	25,359
Other loss (income)		(12,498)	11,133
Increase in operating receivables		(11,475)	(10,702)
Increase in loans for credit card business		(140,933)	(180,741)
Increase in deposits for banking business		229,626	139,162
Decrease in call loans for banking business		5,000	23,000
Increase in loans for banking business		(122,167)	(141,756)
Increase in operating payables		22,692	14,867
Decrease (increase) in financial assets for securities business		38,306	(11,725)
Increase (decrease) in financial liabilities for securities business		(44,128)	71,708
Others		(5,846)	25,479
Income tax paid		(50,576)	(53,264)
<b>Net cash flows from operating activities</b>		<b>78,245</b>	<b>30,700</b>
<b>Cash flows from investing activities</b>			
Decrease in restricted deposits		192	21,203
Increase in time deposits		(14,785)	(17,681)
Decrease in time deposits		12,439	15,110
Purchase of property, plant and equipment		(19,688)	(12,657)
Acquisition of intangible assets		(34,560)	(42,325)
Acquisition of subsidiaries	44	(60,607)	(33,612)
Acquisition of investments in associates and joint ventures		(4,000)	(19,401)
Purchase of investment securities for banking business		(378,355)	(249,291)
Proceeds from sales and redemption of investment securities for banking business		343,721	348,081
Purchase of investment securities for insurance business		(6,795)	(11,310)
Proceeds from sales and redemption of investment securities for insurance business		3,821	9,759
Purchase of investment securities		(69,706)	(53,213)
Proceeds from sales and redemption of investment securities		7,662	20,852
Other payments		(12,458)	(4,867)
Other proceeds		9,041	2,511
<b>Net cash flows used in investing activities</b>		<b>(224,078)</b>	<b>(26,841)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of common stock	26	182,550	549
Net increase (decrease) in short-		(1,597)	(57,529)

(Millions of Yen)			
	Note	Year ended December 31, 2015	Year ended December 31, 2016
term borrowings			
Increase (decrease) in commercial papers		(32,500)	28,000
Proceeds from long-term debt		158,352	212,100
Repayment of long-term debt		(65,831)	(163,832)
Proceeds from issuance of bonds	21	—	39,796
Cash dividends paid		(5,952)	(6,408)
Others		(13,191)	(7,476)
Net cash flows from financing activities		221,831	45,200
Effect of change in exchange rates on cash and cash equivalents		(3,604)	(1,819)
Net increase in cash and cash equivalents		72,394	47,240
Cash and cash equivalents at the beginning of the year	5	428,635	501,029
Cash and cash equivalents at the end of the year	5	501,029	548,269



[Notes to the Consolidated Financial Statements]

1. General Information

(1) Reporting Entity

Rakuten, Inc. (hereinafter referred to as the “Company”) is a company located in Japan. The Company and its subsidiaries (hereinafter referred to as the “Group Companies”) are hinged on two reportable segments: “Internet Services” and “FinTech,” as a Global Innovation Company that has aligned its businesses along two main axes: internet services and FinTech.

Each of these segments has available financial information, which is separate from the Group Companies’ business units and is individually subject to review by the Board of Directors on a regular basis, for adequate allocation of management resources and evaluation of business results.

The “Internet Services” segment comprises businesses running various E-commerce (electronic commerce) sites including an Internet shopping mall Rakuten Ichiba, online cashback sites, travel booking sites, portal sites and digital contents sites, along with businesses for sales of advertising on these sites, and businesses involving provision of messaging and communication services and management of professional sports teams.

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

The Group Companies changed their classification of reportable segments from the fiscal year ended December 31, 2016. For details, please refer to “V. Financial Information, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements, Notes to the Consolidated Financial Statements, 4. Segment Information, (1) General Information.”

(2) Basis of Preparation

The Group Companies prepare their consolidated financial statements in accordance with the International Financial Reporting Standards (hereinafter referred to as “IFRS”) issued by the International Accounting Standards Board. The Company meets the requirements set out under Article 1-2 of the “Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements” under which the Company is qualified as a “specified company under designated IFRS” and duly applies the provisions of Article 93 of the said ordinance.

The consolidated financial statements were approved by the Meeting of the Board of Directors on March 30, 2017.

(3) Functional Currency and Presentation Currency

Items included in the financial statements of each consolidated subsidiary and associate are measured using the currency of the primary jurisdiction in which they conduct their business operations (“functional currencies”). The consolidated financial statements are presented in Japanese yen, the functional currency of the Company and the presentation currency of the Group Companies. The amounts in the consolidated financial statements are presented in millions of yen rounded to the nearest million.

(4) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, except for those financial instruments that have been measured at fair value.

(5) Use of Estimates and Judgments

The preparation of the consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires the management of the Group Companies to exercise judgment in the process of applying the accounting policies of the Group Companies.

The areas involving a higher degree of judgment or complexity, areas where assumptions and estimates are significant to the consolidated financial statements, or information in respect of uncertainties of assumptions and estimates which have a significant risk of causing material adjustment in the next year are disclosed in Note 3. Significant Accounting Estimates and Judgments and other notes.

(6) Early Adoption of Standards and Interpretations

The Group Companies have early adopted the following standards prior to their mandatory effective date.

IFRS		Mandatory adoption (effective date)	Early adoption by Group Companies (effective date)
IFRS 9	Financial instruments	January 1, 2018	December 31, 2012
IFRS 15	Revenue from contracts with customers	January 1, 2018	January 1, 2015

(7) New Standards and Interpretations Not Yet Applied

As of December 31, 2016, the Group Companies have not applied the following standards, interpretations and amendments to standards or interpretations issued before the approval date of the consolidated financial statements but which are not yet effective. The Group Companies are currently analyzing the estimated impact of adopting such standards on the results of operations, financial position or cash flows. The analysis has not been completed.

IFRS		Mandatory adoption (effective date)	Adoption by Group Companies (reporting period ended)	Description
IFRS 9	Financial instruments	January 1, 2018	Not determined	Revision of classification and measurement of financial assets, impairment and hedge accounting
IFRS 16	Leases	January 1, 2019	Not determined	Revision of lease accounting

## 2. Accounting Policies

### (1) Basis of Consolidation

#### 1) Subsidiaries

A subsidiary is an entity (including structured entities) that is controlled by the Group Companies. The Group Companies control an entity when they are exposed, or have rights, to variable returns from involvement with the entity and have the ability to affect those returns through power over that entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group Companies control over another entity or not. Between the date of obtaining control and the date of losing control, the consolidated financial statements of the Group Companies include the financial statements of each controlled subsidiary.

The Group Companies apply the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred by the Group Companies to the former owners of the acquiree and the equity interests issued by the Group Companies. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs incurred by the Group Companies, such as agent commissions, legal fees, due diligence costs, other professional fees and other consulting costs, are recognized as expenses in the period in which they are incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The acquisition date is the date when control is transferred to the acquirer. Judgments may be required in deciding the acquisition date and whether control is transferred from one party to another. Further, the Group Companies recognize any non-controlling interest in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the fair value of non-controlling interest and the fair value of any pre-existing interest in the acquiree at the acquisition date over the net identifiable assets acquired and liabilities assumed. Whereas if the aggregate of the consideration transferred, the fair value of non-controlling interest in the acquiree and the fair value of pre-existing interest in the acquiree at the acquisition date is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the Consolidated Statements of Income as a bargain purchase transaction.

Changes in the ownership interest in subsidiaries are accounted for as equity transactions if the Group Companies retain control over the subsidiaries. Any difference between the adjustment to the non-controlling interests and the fair value of the consideration transferred or received is recognized directly in equity attributable to owners of the Company.

Intercompany balances and transactions are eliminated in consolidation. Unrealized gains or losses included in assets resulting from transactions within the Group Companies are also eliminated. The financial statements of each subsidiary are adjusted, if necessary, to comply with the accounting policies of the Group Companies.

## 2) Associates and Joint Arrangements

Associates are entities over which the Group Companies have significant influence but do not have control over the financial and operating policies of such entities. Significant influence is presumed to exist when the Group Companies hold 20% to 50% of the voting power of another entity. The factors considered in determining whether or not the Group Companies have significant influence include representation on the board of directors. The existence of these factors can lead to the determination that the Group Companies have significant influence, even though the investment of the Group Companies is less than 20% of the voting stock.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the activities that have significant influence on variable returns from arrangements require the unanimous consent of the parties sharing control. Investments in a joint arrangement are classified as a joint operation or a joint venture depending upon the rights and obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for using the equity method, except where they are classified as assets held for sale in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” and accordingly accounted for in accordance with IFRS 5. The Group Companies’ share of the operating results of associates and joint ventures is adjusted to conform with the accounting policies of the Group Companies, and is reported in the Consolidated Statements of Income as “Share of income (loss) of associates and joint ventures.” The Group Companies’ share of investees’ gains or losses resulting from intercompany transactions is eliminated on consolidation. Under the equity method of accounting, the investment of the Group Companies in associates and joint ventures are initially recorded at cost, and subsequently increased (or decreased) to reflect both the Group Companies’ share of the post-acquisition net income and other movements included directly in equity of the associates and joint ventures.

Goodwill arising on the acquisition of associates or joint ventures is included in the carrying value of the investment, and the Group Companies carry out any impairment testing on the entire interest in an associate. The Group Companies assess whether there is any objective evidence that the investments in associates and joint ventures are impaired at each reporting date. If there is any objective evidence of impairment, an impairment test is performed by comparing the investment’s recoverable amount, which is the higher of its value in use or fair value less costs of disposal, to its carrying amount. An impairment loss recognized in prior periods is only reversed if there has been a change in the estimates used to determine the investment’s recoverable amount since the last impairment loss was recognized. The impairment loss is reversed to the extent that the carrying amount of the investment equals the recoverable amount.

For investments in joint operations, the Group Companies recognize their share of the revenues, expenses, assets and liabilities of each joint operation.

## (2) Business Combinations

The Group Companies use the acquisition method to account for business combinations. In accordance with the recognition principles of IFRS 3 “Business Combinations,” the identifiable assets, liabilities and contingent liabilities of the acquiree are measured at their fair values at the acquisition date except:

- Deferred tax assets or liabilities and liabilities (or assets) related to employee benefit arrangements are recognized and measured in accordance with IAS 12 “Income taxes” and IAS 19 “Employee benefits,” respectively; and liabilities related to share-based payments are recognized and measured in accordance with IFRS 2 “Share-based Payment;” and
- Non-current assets and operations classified as held for sale are measured in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations.”

If the initial accounting for business combinations is incomplete by the end of the reporting period in which the business combinations occur, the Group Companies report provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are retrospectively adjusted during the measurement period to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized as of that date. Additional assets or liabilities are recognized if new information, if known, would have resulted in the additional recognition of assets or liabilities. The measurement period does not exceed one year.

Goodwill relating to acquisitions prior to the date of transition to IFRSs is reported in accordance with the previous generally accepted accounting principles (“GAAP”).

## (3) Foreign Currencies

### 1) Foreign Currency Transactions

Foreign currency transactions are translated into the functional currencies of individual foreign subsidiaries using the spot exchange rate at the date of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currencies using the spot exchange rate at the end of each reporting period. Non-monetary assets and liabilities measured at fair value that are denominated in foreign currencies are retranslated using the spot exchange rates at the date when the fair value was determined.

Exchange differences arising from settlement and translation of foreign currency denominated monetary assets and liabilities at the period end closing rate are recognized in the Consolidated Statements of Income. However, when profits or losses related to non-monetary items are recognized in comprehensive income, any exchange differences are also recognized in other comprehensive income.

### 2) Foreign Operations

Assets and liabilities of foreign operations (including goodwill and fair value adjustments arising on the acquisition of foreign operations) are translated into Japanese yen using the spot exchange rate at the reporting date. Income and expenses are translated into Japanese yen at the average exchange rates for the period.

Exchange differences arising from translation of financial statements of foreign operations are recognized in other comprehensive income.

These differences are presented as “Foreign currency translation adjustments” in other components of equity. On disposal of the entire interest in a foreign operation, and on the partial disposal of an interest which results in a loss of control, significant influence or joint control, the cumulative amount of the exchange differences is reclassified to income as a part of gains or

losses on disposal.

(4) Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and insignificant risk of changes in value. However, short-term highly liquid investments in the banking business are excluded.

(5) Financial Instruments

1) Non-derivative Financial Assets

The Group Companies recognize trade and other receivables at the time they arise. All other financial assets are recognized at the contract dates when the Group Companies become a party to the contractual provisions of the instrument.

The following is a summary of the classification and measurement model of non-derivative financial assets.

Financial Assets Measured at Amortized Cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- The asset is held within the Group Companies' business model with the objective of holding assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on a specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are initially measured at fair value plus directly attributable transaction costs. After initial recognition, the carrying amount of the financial assets measured at amortized cost is subsequently measured based on the effective interest method, less impairment loss when necessary.

Impairment of Financial Assets Measured at Amortized Cost

For financial assets measured at amortized cost, on a quarterly basis, the Group Companies assess whether there is any objective evidence that financial assets are impaired. Financial assets are impaired and impairment losses are incurred if:

- There is any objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the assets and up to the reporting date; and
- The loss event had an impact on the estimated future cash flows of the financial assets and a reliable estimate can be made.

Objective evidence that a financial asset is impaired includes:

- A breach of contract, such as a default or delinquency in interest or principal payments;
- Extension of the collection period of a receivable under specific conditions, which would not have been given in the absence of such circumstances;
- Indication of borrower's bankruptcy; and
- The disappearance of an active market.

The Group Companies review the evidence of impairment for financial assets measured at amortized cost individually or collectively. For significant financial assets, the Group Companies assess the evidence of impairment individually. If it is not necessary to impair significant financial assets individually, the Group Companies collectively assess whether or not any incurred but not yet reported impairment exists. Financial assets are grouped based on similar credit risk characteristics and collectively assessed for impairment.

In collectively assessing for impairment, the Group Companies adjust the impairment loss if

it is determined that the actual loss, which reflects the current economic and credit conditions, differs from historical experience, estimated timing of recovery, and expected amount of loss.

The amount of the impairment loss for financial assets is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the financial assets is reduced through the use of an allowance account and the amount of the loss is recognized in the Consolidated Statements of Income. The allowance for doubtful accounts is written off when there is no substantial prospect of recovery and all collateral has been realized or has been transferred to the Group Companies. If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease can be objectively linked to an event occurring after the impairment was recognized, the impairment loss shall be reversed by adjusting the allowance account in the Consolidated Statements of Income. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

#### Financial Assets at Fair Value through Profit or Loss ("FVTPL")

Financial assets other than equity instruments that do not meet the conditions for amortized cost are measured at fair value with gains or losses on remeasurement recognized in the Consolidated Statements of Income. Those financial assets include financial assets held for trading.

Equity investments are measured at fair value with gains or losses on re-measurement recognized in the Consolidated Statements of Income unless the Group Companies make an irrevocable election to measure equity investments as at fair value through other comprehensive income ("FVTOCI") on initial recognition.

Financial assets measured at FVTPL are initially measured at fair value and transaction costs are recognized in the Consolidated Statements of Income when they are incurred.

#### Financial Assets at FVTOCI

On initial recognition, the Group Companies may make an irrevocable election to measure investments in equity instruments as at FVTOCI. The election is made only for equity investments other than those held for trading.

Financial assets measured at FVTOCI are initially measured at their fair value (including directly attributable transaction costs). Subsequently, they are measured at fair value, and gains and losses arising from changes in fair value are recognized in other comprehensive income and presented as "Gains (losses) on financial assets measured at fair value through other comprehensive income" in other components of equity.

However, dividends on financial assets measured at FVTOCI are recognized in the Consolidated Statements of Income as "Revenue" or "Financial income."

### Derecognition of Financial Assets

The Group Companies derecognize a financial asset when the contractual rights to the cash flows from the asset expire, or when the Group Companies transfer the contractual right to receive cash flows from financial assets in transactions in which substantially all the risks and rewards of ownership of the asset are transferred to another entity. Any rights to transferred financial asset qualifying for derecognition created or retained by the Group Companies are accounted for separately.

### 2) Non-derivative Financial Liabilities

Debt securities issued by Group Companies are initially recognized on the issue date. All other financial liabilities are recognized when the Group Companies become a party to the contractual provisions of the instruments.

The Group Companies derecognize financial liabilities when they are extinguished, i.e., when the obligation specified in the contract is discharged, cancelled or expired.

The Group Companies classify financial liabilities as accounts payable-trade, deposits for banking business, financial liabilities for securities business, bonds and borrowings and other financial liabilities as non-derivative financial liabilities, initially measure them at fair value, and subsequently measure them at amortized cost using the effective interest method.

To reduce differences substantially caused by measurement of assets or liabilities or recognition of income on different bases, some deposits for banking business are designated as financial liabilities at FVTPL.

### 3) Derivatives

#### Derivatives Qualifying for Hedge Accounting

The Group Companies enter into derivative transactions to manage the risk of fair value fluctuations due to changes in interest rates, interest rate risk and foreign currency risk. The primary derivatives used by the Group Companies are interest rate swaps and foreign exchange forward contracts.

At the initial designation of the hedging relationship, the Group Companies document the relationship between the hedging instrument and the hedged item, along with their risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, the evaluation of the effectiveness of the hedging instrument in offsetting the hedged risk, and the measurement of ineffectiveness.

At the inception of the hedge and on an ongoing basis, the Group Companies assess whether the Group Companies can forecast if the hedging instrument is highly effective in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk throughout the period for which the hedge is designated.

Derivatives are initially recognized at fair value with transaction costs recognized in the Consolidated Statements of Income as incurred. Subsequently derivatives are measured at fair value, and gains and losses arising from changes in the fair value are accounted for as follows:



– Fair Value Hedges

The changes in the fair value of the hedging instrument resulting from subsequent measurements are recognized in the Consolidated Statements of Income. The gains or losses on the hedged items attributable to the hedged risks are recognized in the Consolidated Statements of Income, and the carrying amounts of the hedged items are adjusted.

– Cash Flow Hedges

When derivatives are designated as hedging instruments to hedge the exposure to variability in cash flows that are attributable to a particular risk associated with recognized assets or liabilities and might affect net income, the portion of the gain and loss on the derivative that is determined to be an effective hedge is presented as “Gains (losses) on cash flow hedges recognized in other comprehensive income” in the other components of equity. The balances of cash flow hedges are reclassified to income from other comprehensive income in the periods when the cash flows of hedged items affect income, in the same line items of the consolidated statements of comprehensive income as those of hedged items. The gain or loss relating to the ineffective portion is recognized immediately in the Consolidated Statements of Income. In cases where hedged items result in the recognition of non-financial assets or liabilities, the amounts recognized as other comprehensive income are accounted for as adjustments to the original carrying amount of non-financial assets or liabilities.

Hedge accounting is discontinued prospectively when the hedge no longer qualifies for hedge accounting, or when the hedging instrument is expired, sold, terminated or exercised, or when the designation is revoked.

Derivatives Not Qualifying for Hedge Accounting

The Group Companies hold some derivatives for hedging purposes that do not qualify for hedge accounting. Derivatives may also be held for trading as opposed to hedging purposes. Any changes in fair value of these derivatives are recognized immediately in the Consolidated Statements of Income.

Embedded Derivatives

Some hybrid contracts, which contain both a derivative and a non-derivative component, are included among the financial instruments and other contracts. In such cases, the derivative component is termed an embedded derivative, with the non-derivative component representing the host contract. Where the host contract is a financial liability, if the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid contract itself is not classified as FVTPL as a financial liability, the embedded derivative is separated from the host contract and accounted for as a derivative. The financial liability component of the host contract is then accounted for in accordance with the Group Companies' accounting policy for non-derivative financial liabilities.

4) Presentation of Financial Instruments

Financial assets and liabilities are offset, with the net amount presented in the consolidated statements of financial position, only if the Group Companies hold a currently enforceable legal right to set off the recognized amounts, and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

## 5) Financial Guarantee Contracts

Financial guarantee contracts are contracts that require the guarantor to make specified payments to reimburse the guarantee for losses incurred due to a debtor failing to make payments when due in accordance with the original or modified terms of a debt instrument.

Such financial guarantee contracts are measured initially at fair value on the date of the contract. Subsequent to initial recognition, the Group Companies measure the financial guarantee at the higher of the best estimate of expenditure required to settle the obligation under the financial guarantee contract, and the unamortized balance of the total amount of future guarantee charges.

## (6) Property, Plant and Equipment

All property, plant and equipment are recorded at cost less any accumulated depreciation and accumulated impairment losses.

Cost includes costs directly attributable to the acquisition of and dismantling and removal of the asset, as well as any estimated costs of restoring the site on which they are located. Property, plant and equipment are subsequently carried on the historical cost basis measured using the cost model.

Depreciation is calculated based on the depreciable amount. The depreciable amount is the cost of an asset less its residual value.

Depreciation of property, plant and equipment is mainly computed under the straight-line method based on the estimated useful life of each component. The straight-line method is used because it is considered to most closely approximate the pattern in which the future economic benefits of assets are expected to be consumed by the Group Companies. Leased assets are depreciated over the shorter of the lease term and their useful lives if there is no reasonable certainty that the Group Companies will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant assets for the previous fiscal year and the current fiscal year are as follows:

- Buildings and accompanying facilities 10–50 years
- Furniture, fixtures and equipment 5–10 years

The depreciation methods, useful lives and residual values are reviewed at the end of each reporting period, and revised if necessary.

## (7) Intangible Assets

### 1) Goodwill

#### Initial Recognition

Goodwill arising on the acquisition of a subsidiary is recognized as an intangible asset. Measurement of goodwill on initial recognition is described in (1) Basis of Consolidation.

#### Subsequent Measurement

Goodwill is measured at cost less accumulated impairment losses.

## 2) Capitalized Software Costs

The Group Companies incur certain costs to purchase or develop software primarily for internal-use.

Expenditures arising from research activities to obtain new scientific or technical knowledge are recognized as expenses when they are occurred. Expenditures arising from development activities are capitalized as software, if, and only if, they are reliably measurable, they are technically feasible, it is highly probable that they will generate future economic benefits, and the Group Companies intend and have adequate resources to complete their developments and use or sell them.

Capitalized software is measured at cost less accumulated amortization and any accumulated impairment losses.

## 3) Intangible Assets Acquired in Business Combinations

Intangible assets that are acquired in business combinations, such as trademarks and other similar items, are recognized separately from goodwill, and are initially recognized at fair value at the acquisition date.

Subsequently such intangible assets are measured at cost less any accumulated amortization and accumulated impairment losses.

## 4) Other Intangible Assets

Other intangible assets with definite useful lives are measured at cost less any accumulated amortization and accumulated impairment losses.

## 5) Amortization

Amortization is calculated based on the acquisition cost of an asset less its residual value. Within intangible assets with useful lives that can be determined, the value of the insurance business, contracts and its customer relationships acquired through business combinations are amortized based on the ratio of actual insurance revenue occurring in a year over the total expected insurance revenue over the period. Other intangible assets are amortized under the straight-line method. These methods are used because they are considered to most closely approximate pattern in which the future economic benefits of intangible assets are expected to be consumed by the Group Companies.

Estimated useful lives of significant intangible assets with definite useful lives are as follows:

- Software mainly 5 years
- Value of the insurance business and its acquired customer relationships 30 years

The amortization methods, useful lives and residual values are reviewed at the end of each reporting period, and revised if necessary.

## (8) Leases (Lessee)

### Leasing Transactions

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. In the case that fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, such transactions are classified as lease transactions.

### Finance Leases

Leases that transfer all risks and benefits of ownership of the leased item to the lessee are

classified as finance leases.

Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. After commencement of the lease, the Group Companies' accounting policy appropriate to each asset is applied.

The discount rate used in calculating the present value of the minimum lease payments is the implicit interest rate of the lease, where this can be determined practically. Where it is impractical to determine such a rate, the lessee's incremental borrowing rate shall be used.

The minimum lease payments are apportioned between finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

A leased asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

#### Operating Leases

Lease arrangements, other than finance leases that have not been capitalized in the consolidated statements of financial position, are classified as operating leases.

Under operating lease transactions, lease payments are recognized as an expense using the straight-line method over the lease term in the Consolidated Statements of Income.

#### (9) Impairment of Non-financial Assets

The Group Companies assess at each reporting date whether there is an indication that a non-financial asset, except for inventories and deferred tax assets, may be impaired. If any such indication exists, the Group Companies estimate the recoverable amount of the asset. For goodwill, intangible assets with indefinite useful lives, and intangible assets not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit, or group of cash-generating units (CGU) is the higher of its value in use and fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. A CGU is the smallest identifiable group of assets, which generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or group of assets.

In principle, each entity is considered to be a CGU. Goodwill is allocated to a CGU or a group of CGUs based on the unit by which the goodwill is monitored for internal management purposes.

Since corporate assets do not generate independent cash flows, if there is an indication that corporate assets may be impaired, the recoverable amount is determined for the CGU or group of CGUs to which the corporate assets belong.

Impairment losses are recognized in the Consolidated Statements of Income when the carrying amount of an asset, a CGU or a group of CGUs exceeds its recoverable amount. Such impairment losses are recognized first reducing the carrying amount of any allocated goodwill and then are allocated to the other assets of the CGU on a pro-rata basis based on the carrying amount of such assets.

Impairment losses recognized in respect of goodwill are not reversed. Assets other than goodwill are reviewed at the end of each reporting period to assess whether there is any indication that an impairment loss recognized in prior years may no longer exist or may have decreased. An impairment loss recognized is reversed if an indication of the reversal of impairment losses exists and there is a change in the estimates used to determine the asset's recoverable amount. The reversal of an impairment loss does not exceed the carrying amount,

net of depreciation and amortization, which would have been determined if any impairment loss had never been recognized for the asset in prior years.

#### (10) Provisions

Provisions are recognized when the Group Companies have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

#### (11) Insurance

##### General Insurance Accounting

Insurance contracts issued and reinsurance contracts held by insurers are accounted for under IFRS 4 "Insurance contracts" based on the accounting policies previously applied in accordance with Japanese accounting standards for insurance companies.

##### Policy reserves and others for insurance business

The Group Companies apply the measurement of insurance liabilities which has been applied for insurance contracts in Japan. A liability adequacy test is performed in consideration of estimated present value of cash inflows, such as related insurance premiums and investment income, and cash outflows such as insurance claims and benefits and operating expenses. If the test shows that the liability is inadequate, the entire deficiency is recognized in the Consolidated Statements of Income.

#### (12) Equity

##### Common Stock

Proceeds from the issuance of equity instruments by the Company are included in "Common stock" and "Capital surplus." Direct issuance costs (net of tax) are deducted from "Capital surplus."

##### Treasury Stock

When the Company repurchases treasury stock, the consideration paid, including direct transaction costs (net of tax), is recognized as a deduction from equity. When the Company sells treasury stock, the consideration received is recognized as an addition to equity.

#### (13) Share-based Payments

The Group Companies have stock option plans as incentive plans for directors, executive officers, and employees. The fair value of stock options at the grant date is recognized as an employee expense over the vesting period from the grant date as a corresponding increase in capital surplus. The fair value of the stock options is measured using the Black-Scholes model or other models, taking into account for the terms of the options granted. The Group Companies regularly review the assumptions and revise estimates of the number of options that are expected to vest, as necessary.

#### (14) Revenue

The Group Companies recognize revenue, excluding interest and dividend income and other such income from financial instruments recognized in accordance with IFRS 9 and insurance revenues recognized in accordance with IFRS 4, upon transfer of promised goods or services to

customers in amounts that reflect the consideration to which the Group Companies expect to be entitled in exchange for those goods or services based on the following five step approach:

Step 1: Identify the contracts with customers

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The incremental costs of obtaining contracts with customers and the costs incurred in fulfilling contracts with customers that are directly associated with the contract are recognized as an asset (hereinafter, "assets arising from contract costs") if those costs are expected to be recoverable. The incremental costs of obtaining contracts are those costs that the Group Companies incur to obtain a contract with a customer that they would not have incurred if the contract had not been obtained. Assets arising from contract costs are amortized using the straight-line method over a period from four to ten years depending on the estimated contract periods.

#### (15) Financial Income and Expenses

Financial income mainly comprises interest income, dividend income and changes in the fair value of financial assets measured at FVTPL. Interest income is accrued using the effective interest method. Dividend income is recognized on the date when the right of the Group Companies to receive the dividend is established.

Financial expenses mainly comprise interest expenses. Interest expenses are accrued using the effective interest method.

Financial income and expenses incurred from the finance business of the subsidiaries are included in "Revenue" and "Operating expenses."

#### (16) Short-term Employee Benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed during the period when the related service is rendered. Accrued bonuses are recognized as liabilities, when the Group Companies have present legal or constructive obligation and when reliable estimates of the obligations can be made.

#### (17) Current and Deferred Income Tax

The income tax expense comprises current and deferred taxes. These are recognized in the Consolidated Statements of Income, except for income taxes which arise from business combinations or which are recognized either in other comprehensive income or directly in equity.

Current taxes are calculated by the expected tax payable or receivables on the taxable income, using the tax rates enacted or substantially enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated statements of financial position and their corresponding tax bases. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of an asset or liability in a transaction, which is not a business combination and, at the time of the transaction, affects neither income in the Consolidated Statements of Income nor taxable income.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply in the period when the related deferred tax assets is realized or the deferred tax liability is settled, based on tax laws that have been enacted or substantively enacted by the end of reporting period.

Deferred tax assets are recognized for unutilized tax losses, tax credits and deductible

temporary differences, only to the extent that it is probable that future taxable income will be available against which such temporary differences can be utilized.

Deferred tax assets and liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures. However, if the Group Companies are able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future, deferred tax liabilities are not recognized. Deferred tax assets are recognized only to the extent that it is probable that there will be sufficient taxable income against which the benefit of temporary differences can be utilized and the temporary differences will reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to settle current tax assets and liabilities on a net basis.

#### (18) Earnings Per Share

The Group Companies disclose basic and diluted earnings per share (attributable to the owners of the Company) related to common stock. Basic earnings per share is calculated by dividing net income (attributable to equity owners of the Company) by the weighted average number of common stock outstanding during the reporting period, adjusted for the number of treasury stock held. Diluted earnings per share are calculated, for the dilutive effects of all potential common stock by dividing net income (attributable to the owners of the Company) by the weighted average number of common stock outstanding during the reporting period, adjusted for the number of treasury stock. Potential common stock of the Group Companies relates to the stock option plan.

#### (19) Operating Segments

Operating segments correspond to business activities, from which the Group Companies earn revenues and incur expenses, including revenues and expenses relating to transactions with other operating segments. Discrete financial information for operating results of all operating segments is available, and is regularly reviewed by the Board of Directors of the Group Companies in order to determine the allocation of resources to the segment and assess its performance.

### 3. Significant Accounting Estimates and Judgments

#### (1) Significant Accounting Estimates and Assumptions

In the preparation of the consolidated financial statements in accordance with IFRS, the Group Companies make estimates and assumptions concerning future events. These accounting estimates are may inherently differ from actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the following reporting period are addressed below.

##### (a) Goodwill Assessment (Note 2 “Accounting Policies” (9) and Note 18 “Intangible Assets”)

An impairment test is conducted at least once a year for goodwill recognized by the Group Companies, regardless of whether there is an indication of impairment or not. The recoverable amount of CGUs, to which goodwill is allocated, is mainly calculated based on estimated future cash flows, estimated growth rate, and discount rate. This calculation is based on judgments and assumptions that are made by the management of the Group Companies, considering business and market conditions. The Group Companies consider these assumptions to be significant because, if the assumed conditions change, the estimated recoverable amounts might be

significantly different.

(b) Recoverability of Deferred Tax Assets (Note 2 “Accounting Policies” (17) and Note 25 “Income Tax Expense”)

For temporary differences that are differences between carrying value of an asset or liability in the consolidated statements of financial position and its tax base, the Group Companies recognize deferred tax assets and deferred tax liabilities in respect of such deferred tax assets and deferred tax liabilities calculated using the tax rates based on tax laws that have been enacted or substantively enacted by the end of the reporting period and the tax rates that are expected to apply to the period when the deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets are recognized for all deductible temporary differences, the unutilized tax losses carried forward and the unutilized tax credit carried forward to the extent that it is probable that taxable income will be available. The estimation of the taxable income for the future is calculated based on the business plan approved by the management of the Group Companies, and is based on management’s subjective judgments and assumptions. The Group Companies consider these assumptions to be significant because changes in the assumed conditions and amendments of tax laws in the future might significantly affect the calculation of the amounts of deferred tax assets and deferred tax liabilities.

(c) Methods of Determining Fair Value for Financial Instruments Measured at Fair Value Including Derivative Instruments (Note 2 “Accounting Policies” (5) and Note 39 “Fair Value of Financial Instruments”)

Financial assets and financial liabilities including derivatives, held by Group Companies are measured at the following fair values:

- Quoted prices in active markets for identical assets or liabilities;
- Fair value calculated using observable inputs other than quoted prices for the assets or liability, either directly or indirectly; and
- Fair value calculated using valuation techniques incorporating unobservable inputs.

In particular, the fair value estimated through valuation techniques that incorporate unobservable inputs is premised on the decisions and assumptions of the management of the Group Companies, such as appropriate experience assumptions, suppositions, and the model utilized. The Group Companies consider the estimations to be significant as it is probable that the changes of estimations and assumptions might have significant influence on the calculation of fair value for financial instruments.

(d) Impairment of Financial Assets Measured at Amortized Cost (Note 2 “Accounting Policies” (5) and Note 41 “Financial Risk Management”)

For financial assets measured at amortized cost, the Group Companies assess whether there is any objective evidence that financial assets are impaired each quarter. Where any such objective evidence exists, the Group Companies recognize the difference between the carrying value of the asset and the present value of estimated future cash flows as impairment losses.

When estimating future cash flows, management makes judgments considering the probability of default, time of recovery and historical experience, and whether after reflecting current economic and credit conditions, actual losses are greater than or less than such trends in the past. If these estimations and assumptions change, the amount of any impairment losses for financial assets measured at amortized cost might vary widely, therefore, the Group Companies consider these estimations to be significant.



(e) Provisions (Note 2 “Accounting Policies” (10) and Note 23 “Provisions”)

The Group Companies record certain provisions, such as provision for customer points. Regarding the provision for customer points, in preparation for the future use of points by members, the Group Companies use historical experience to estimate the provision for the Rakuten Super Point Program. The provision is estimated on the premise of management’s decisions and the assumptions of the Group Companies. The Group Companies consider the estimation to be significant as it is probable that the changes of estimation and assumptions could have a significant influence on the calculation of the amount of the provisions.

(f) Liability Adequacy Test for Insurance Contracts (Note 2 “Accounting Policies” (11) and Note 24 “Policy Reserves and Others for Insurance Business”)

The Group Companies perform a liability adequacy test for insurance contracts in consideration of estimated present value of cash inflows such as related insurance premiums and investment income, and cash outflows such as insurance claims and benefits and operating expenses.

(2) Significant Judgment in Applying the Accounting Policies of the Group Companies

In the process of applying the accounting policies, the management of the Group Companies has made certain decisions which have a significant influence on the amounts recognized in the consolidated financial statements.

The Group Companies, mainly in the banking business and the credit card business, transact with structured entities, which are designed so that voting rights or similar rights are not the dominant factor in deciding who controls the entities. The management of the Group Companies decide whether the Group Companies are controlling the entities or not. All related facts and circumstances on the involvement with the structured entity are considered in deciding whether control over such an entity exists.

#### 4. Segment Information

##### (1) General Information

As a Global Innovation Company engaged in the two main activities of Internet Services and FinTech, the Group Companies were previously organized into three reportable segments: "Internet Services," "FinTech" and "Others." From the three months ended September 30, 2016, the Group Companies reviewed their internal reporting control framework following the introduction of an internal Company System. Accordingly, businesses that had previously comprised the "Others" segment were integrated into the businesses that comprise the "Internet Services" segment. As a result, the previous three reportable segments were changed to two reportable segments: "Internet Services" and "FinTech."

Segment information for the previous fiscal year has been prepared based on the classification method after the change.

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

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

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

##### (2) Measurement of Segment Profit and Loss

The operating segment information is prepared in accordance with IFRS as set out in Note 2 Accounting Policies, and operating segment revenue and profit or loss are those before intercompany eliminations without consideration of consolidation adjustments, except for certain consolidated subsidiaries. The internal measures management uses in making decisions are Non-GAAP operating income. Non-GAAP operating income is operating income determined in accordance with IFRS after adjustment for unusual items and other adjustment items as prescribed by the Group Companies.

The management believes that the disclosure of Non-GAAP financial measures facilitates comparison between the Group Companies and peer companies in the same industry or comparison of their business results with those of prior fiscal years by stakeholders, and can provide useful information in understanding the underlying business results of the Group Companies and their future outlook. Unusual items refer to one-off items that the Group Companies believe should be excluded in preparing a future outlook based on certain parameters. Other adjustment items are those that tend to differ depending on the standards or similar applied; therefore less comparable between companies. Examples of such items are stock-based compensation expense and amortization of acquisition-related intangible assets.

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

For the year ended December 31, 2015

	(Millions of Yen)		
	Internet Services	FinTech	Total
Segment revenue	¥492,836	¥275,136	¥767,972
Segment profit or loss	90,909	63,899	154,808
Other items			
Depreciation and amortization	27,659	13,731	41,390

For the year ended December 31, 2016

	(Millions of Yen)		
	Internet Services	FinTech	Total
Segment revenue	¥560,555	¥296,066	¥856,621
Segment profit or loss	55,568	65,587	121,155
Other items			
Depreciation and amortization	31,738	16,333	48,071

The reconciliation of segment revenue to consolidated revenue is as follows:

	(Millions of Yen)	
	Year ended December 31, 2015	Year ended December 31, 2016
Segment revenue	¥767,972	¥856,621
Intercompany transactions, etc.	(54,417)	(74,705)
Consolidated revenue	713,555	781,916

The reconciliation of segment profit or loss to income before income tax is as follows:

	(Millions of Yen)	
	Year ended December 31, 2015	Year ended December 31, 2016
Segment profit	¥154,808	¥121,155
Intercompany transactions, etc.	(2,655)	(2,075)
Non-GAAP operating income	152,153	119,080
Amortization of intangible assets	(8,322)	(7,789)
Stock-based compensation expenses	(6,088)	(7,344)
One-off items	(43,054)	(25,970)
Operating income	94,689	77,977
Financial income and expenses	(3,688)	(3,245)
Share of income (loss) of associates and joint ventures	986	(809)
Income before income tax	91,987	73,923

One-off items recognized for the year ended December 31, 2015 include head office relocation-related expense of ¥4,171 million and impairment of goodwill and intangible assets of ¥38,883 million. One-off items recognized for the year ended December 31, 2016 include costs associated with impairment of goodwill and intangible assets of ¥25,970 million. For details of impairment loss,

please refer to Note 17 Property, Plant and Equipment and Note 18 Intangible Assets.

(3) Products and Services

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	Others	Revenue from external customers
Year ended December 31, 2015	¥189,517	¥92,199	¥53,174	¥378,665	¥713,555
Year ended December 31, 2016	194,591	108,829	59,621	418,875	781,916

(4) Geographic Information

For the year ended December 31, 2015

	(Millions of Yen)				
	Japan	Americas	Europe	Others	Total
Revenue from external customers	¥573,839	¥106,878	¥24,544	¥8,294	¥713,555
Property, plant and equipment and intangible assets	186,212	249,142	122,783	5,057	563,194

For the year ended December 31, 2016

	(Millions of Yen)				
	Japan	Americas	Europe	Others	Total
Revenue from external customers	¥625,468	¥120,633	¥22,565	¥13,250	¥781,916
Property, plant and equipment and intangible assets	217,767	216,438	117,047	8,106	559,358

(5) Major Customers

For the year ended December 31, 2015

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, 2016

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

5. Cash and Cash Equivalents  
Breakdown of Cash and Cash Equivalents

(Millions of Yen)		
	December 31, 2015	December 31, 2016
Cash and deposits	¥501,029	¥548,269
Cash and cash equivalents	501,029	548,269

Funds (cash and cash equivalents) stated in the Group Companies' Consolidated Statements of Cash Flows include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and insignificant risk of changes in value. However, short-term highly liquid investments in the banking business are excluded.

6. Accounts Receivable — Trade  
Breakdown of Accounts Receivable — Trade

(Millions of Yen)		
	December 31, 2015	December 31, 2016
Gross amount of notes and accounts receivable — trade	¥106,625	¥119,821
Allowance for doubtful accounts	(2,614)	(2,733)
Net amount of notes and accounts receivable — trade	104,011	117,088

Accounts receivable — trade is mainly generated from sales related to the Internet Services business and is measured at amortized cost.

## 7. Financial Assets for Securities Business

### Breakdown of Financial Assets for Securities Business

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Financial assets measured at amortized cost		
Cash segregated as deposits	¥484,883	¥535,855
Accounts receivable relating to investment securities transactions	224,708	249,212
Margin transactions assets	327,320	265,899
Short-term guarantee deposits	57,129	56,544
Others	15,361	13,722
Gross amount of financial assets measured at amortized cost	1,109,401	1,121,232
Allowance for doubtful accounts	(1,466)	(1,596)
Net amount of financial assets measured at amortized cost	1,107,935	1,119,636
Financial assets measured at FVTPL	1,364	1,048
Total financial assets for securities business	1,109,299	1,120,684

Investment securities held for trading purposes are included in financial assets measured at FVTPL.

Derivative assets held for trading purposes are included in "Derivative assets," while operating investment securities are included in "Investment securities."

## 8. Loans for Credit Card Business

### Breakdown of Loans for Credit Card Business

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Gross amount of loans for credit card business	¥858,792	¥1,049,628
Allowance for doubtful accounts	(24,972)	(34,920)
Net amount of loans for credit card business	833,820	1,014,708

Loans for credit card business mainly comprise accounts receivable arising from the use of credit cards by customers based on installment contracts and similar.

Loans for credit card business are measured at amortized cost because they are classified as financial assets held as part of the Group Companies' business model with the objective of collecting contractual cash flows, and such cash flows are limited to solely repayments of principal including interest on the principal balance outstanding.

9. Investment Securities for Banking Business

Breakdown of Investment Securities for Banking Business

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Financial assets measured at amortized cost		
Trust beneficiary rights	¥29,034	¥29,494
Domestic bonds	168,156	98,164
Foreign bonds	55,423	25,284
Gross amount of financial assets measured at amortized cost	252,613	152,942
Allowance for doubtful accounts	(75)	(50)
Net amount of financial assets measured at amortized cost	252,538	152,892
Financial assets measured at FVTPL		
Domestic bonds	4,548	4,010
Foreign bonds	682	412
Total financial assets measured at FVTPL	5,230	4,422
Financial assets measured at FVTOCI	1	1
Total investment securities for banking business	257,769	157,315

Within investment securities for banking business, investment securities held as part of the Group Companies' business model with the objective of collecting contractual cash flows limited to solely payments of principal and interest on the principal balance outstanding on a specified date in accordance with the contractual terms, are classified as financial assets measured at amortized cost, while all other investment securities are classified as financial assets measured at fair value. Within financial assets measured at fair value, investments in equity instruments are designated as financial assets measured at FVTOCI.

## 10. Loans for Banking Business

### Breakdown of Loans for Banking Business

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Gross amount of loans for banking business	¥445,459	¥587,865
Allowance for doubtful accounts	(1,415)	(2,065)
Net amount of loans for banking business	444,044	585,800

Loans for banking business mainly comprise loan receivables from individual customers.

Loans for banking business are measured at amortized cost because they are defined as financial assets held as part of the Group Companies' business model with the objective of collecting contractual cash flows, and such cash flows are limited to repayments of principal including interest on the principal balance outstanding.

## 11. Investment Securities for Insurance Business

### Breakdown of Investment Securities for Insurance Business

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Trust beneficiary rights	¥2,024	¥3,069
Domestic bonds	13,284	15,002
Total investment securities for insurance business	15,308	18,071

Investment securities for insurance business are measured at amortized cost because they are defined as financial assets held as part of the Group Companies' business model with the objective of collecting contractual cash flows, and such cash flows are limited to solely repayments of principal including interest on the principal balance outstanding.



## 12. Derivative Assets and Derivative Liabilities

The fair values and notional principal amounts of derivatives qualifying for hedge accounting and derivatives not qualifying for hedge accounting are as follows:

### Derivatives Qualifying for Hedge Accounting

	(Millions of Yen)					
	December 31, 2015			December 31, 2016		
	Notional principal amount	Fair value		Notional principal amount	Fair value	
Assets		Liabilities	Assets		Liabilities	
Fair value hedges						
Interest rate swap contracts	¥12,500	¥—	¥738	¥12,500	¥—	¥696
Cash flow hedges						
Foreign exchange forward contracts	—	—	—	5,011	92	2
Interest rate swap contracts	73,590	—	732	76,771	—	700
Total	86,090	—	1,470	94,282	92	1,398

### Derivatives Not Qualifying for Hedge Accounting

	(Millions of Yen)					
	December 31, 2015			December 31, 2016		
	Notional principal amount	Fair value		Notional principal amount	Fair value	
Assets		Liabilities	Assets		Liabilities	
Foreign currency contracts						
Foreign exchange forward contracts	¥78,547	¥237	¥749	¥82,822	¥2,516	¥91
Foreign exchange margin contracts	2,274,381	18,189	8,142	1,636,110	17,151	4,714
Subtotal of foreign currency contracts	2,352,928	18,426	8,891	1,718,932	19,667	4,805
Interest rate contracts						
Interest rate swaption contracts	229,576	2,879	262	143,225	2,054	393
Others	2,146	7	0	2,122	0	2
Total	2,584,650	21,312	9,153	1,864,279	21,721	5,200

### 13. Investment Securities

#### Breakdown of Investment Securities

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Financial assets measured at amortized cost	¥10,127	¥10,623
Financial assets measured at FVTPL		
Listed	—	—
Unlisted	82,206	106,527
Total financial assets measured at FVTPL	82,206	106,527
Financial assets measured at FVTOCI		
Listed	9,398	8,514
Unlisted	49,506	47,412
Total financial assets measured at FVTOCI	58,904	55,926
Total investment securities	151,237	173,076

### 14. Other Financial Assets

#### Breakdown of Other Financial Assets

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Financial assets measured at amortized cost		
Accounts receivable — other	¥50,472	¥60,254
Call loans for banking business	23,000	—
Security deposits	7,425	15,208
Others	80,954	62,448
Gross amount of financial assets measured at amortized cost	161,851	137,910
Allowance for doubtful accounts	(212)	(233)
Net amount of financial assets measured at amortized cost	161,639	137,677
Financial assets measured at FVTPL	1	1
Financial assets measured at FVTOCI	—	—
Total other financial assets	161,640	137,678

### 15. Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts by type of financial assets measured at amortized cost are as follows:

For the year ended December 31, 2015

(Millions of Yen)

	Accounts receivable — trade	Financial assets for securities business	Loans for credit card business	Investment securities for banking business	Loans for banking business	Other financial assets	Total
January 1, 2015	¥2,152	¥1,147	¥20,363	¥92	¥961	¥472	¥25,187
Increases during the period (allowance for doubtful accounts charged to expenses)	700	242	20,652	—	321	84	21,999
Increases during the period (others)	414	103	1,063	—	138	55	1,773
Decreases during the period (utilized)	(586)	(26)	(17,106)	—	(5)	(162)	(17,885)
Decreases during the period (reversals)	(7)	—	—	(17)	—	(1)	(25)
Decrease during the period (others)	(59)	—	—	—	—	(236)	(295)
December 31, 2015	2,614	1,466	24,972	75	1,415	212	30,754

For the year ended December 31, 2016

(Millions of Yen)

	Accounts receivable — trade	Financial assets for securities business	Loans for credit card business	Investment securities for banking business	Loans for banking business	Other financial assets	Total
January 1, 2016	¥2,614	¥1,466	¥24,972	¥75	¥1,415	¥212	¥30,754
Increases during the period (allowance for doubtful accounts charged to expenses)	1,008	267	25,004	—	399	—	26,678
Increases during the period (others)	—	—	1,307	—	262	247	1,816
Decreases during the period (utilized)	(578)	(137)	(16,363)	—	(11)	(151)	(17,240)
Decreases during the period (reversals)	—	—	—	(25)	—	(75)	(100)
Decrease during the period (others)	(311)	—	—	—	—	—	(311)
December 31, 2016	2,733	1,596	34,920	50	2,065	233	41,597

## 16. Investments in Associates and Joint Ventures

### (1) Investments in Associates

The Group Companies account for investments in associates using the equity method.

The carrying amounts of investments in associates, which are all individually insignificant, are as follows:

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Total carrying amount	¥16,416	¥39,959

Financial information on associates, which are all individually insignificant, is as follows. The following amounts represent the Group Companies' portion of ownership interests.

	(Millions of Yen)	
	Year ended December 31, 2015	Year ended December 31, 2016
Net income	¥893	¥(817)
Other comprehensive income	(142)	5
Comprehensive income	751	(812)

### (2) Investments in Joint Ventures

For certain investments in companies, the Group Companies have entered into contracts which require unanimous consent among the counterparties for decisions that significantly affect the returns from the investment. As the Group Companies exercise joint control with such counterparties and have rights to the investee's net assets, such companies are determined to be joint ventures and are accounted for using the equity method.

The total carrying amounts of investments in individually insignificant joint ventures are as follows:

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Total carrying amount	¥496	¥1,171

Aggregate financial information on individually insignificant joint ventures is as follows. The following amounts represent the Group Companies' portion of ownership interests.

	(Millions of Yen)	
	Year ended December 31, 2015	Year ended December 31, 2016
Net income	¥93	¥8
Comprehensive income	93	8

## 17. Property, Plant and Equipment

### (1) Schedule of Changes in Property, Plant and Equipment

(Millions of Yen)

	Buildings and accompanying facilities	Furniture, Fixtures and equipment	Others	Total
January 1, 2015				
Cost	¥24,258	¥34,952	¥11,702	¥70,912
Accumulated depreciation and accumulated impairment losses	(9,655)	(19,972)	(6,474)	(36,101)
Carrying amount	14,603	14,980	5,228	34,811
Increases	10,238	10,750	2,384	23,372
Acquisition through business combinations	1,417	677	357	2,451
Disposals and sales	(323)	(300)	(98)	(721)
Impairment loss	(1)	(311)	(1,763)	(2,075)
Depreciation	(2,491)	(5,085)	(359)	(7,935)
Exchange rate differences	(128)	(312)	(17)	(457)
Other changes	(327)	(0)	(677)	(1,004)
December 31, 2015				
Cost	30,434	41,764	11,694	83,892
Accumulated depreciation and accumulated impairment losses	(7,446)	(21,365)	(6,639)	(35,450)
Carrying amount	22,988	20,399	5,055	48,442
Increases	4,630	7,161	1,215	13,006
Acquisition through business combinations	3	1,500	33	1,536
Disposals and sales	(175)	(257)	(152)	(584)
Impairment loss	—	(14)	(232)	(246)
Depreciation	(2,192)	(5,609)	(482)	(8,283)
Exchange rate differences	(65)	(187)	(42)	(294)
Other changes	(35)	(254)	(17)	(306)
December 31, 2016				
Cost	33,695	44,879	12,657	91,231
Accumulated depreciation and accumulated impairment losses	(8,541)	(22,140)	(7,279)	(37,960)
Carrying amount	25,154	22,739	5,378	53,271

Depreciation is presented within “Operating expenses” in the Consolidated Statements of Income.

(2) Impairment of Property, Plant and Equipment

The Group Companies assess, at each reporting date, whether there are any indications that property, plant and equipment may be impaired. If any indication exists, the Group Companies estimate the recoverable amount of the asset.

In principle, the Group Companies estimate the recoverable amount of individual assets. However if estimation of the recoverable amount of individual assets is not possible, then estimation of the recoverable amount of the CGU to which the asset belongs is made. A CGU is the smallest identifiable group of assets, which generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. In principle, each group company is considered to be a CGU. Idle assets for which no future use is anticipated are considered individually as CGUs.

(3) Property, Plant and Equipment Pledged as Collateral

As of December 31, 2015

Not applicable.

As of December 31, 2016

Not applicable.

(4) Finance Leases (as Lessee)

Carrying amounts of leased assets under finance lease arrangements are as follows.

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Buildings	¥9,192	¥10,687
Furniture, fixtures and equipment	1,274	1,230
Others	181	1,728
Total	10,647	13,645

Included in the above is a baseball stadium facility, which has been donated to Miyagi Prefecture based on a franchise contract, and which is recognized as a finance lease as the Group Companies have the right of use in relation to the stadium facility. The related carrying amounts as of December 31, 2015 and 2016 were ¥9,285 million and ¥11,016 million, respectively. There are no lease obligations associated with this lease arrangement.

Lease obligations based on finance lease contracts as of December 31, 2015 and 2016 were ¥1,069 million and ¥2,048 million, respectively.

## 18. Intangible Assets

### (1) Schedule of Changes in Intangible Assets

	(Millions of Yen)			
	Goodwill	Software	Others	Total
January 1, 2015				
Cost	¥400,929	¥145,857	¥93,214	¥640,000
Accumulated amortization and accumulated impairment losses	(37,284)	(89,393)	(22,644)	(149,321)
Carrying amount	363,645	56,464	70,570	490,679
Increases	—	30,912	2,887	33,799
Acquisition through business combinations	47,516	147	20,222	67,885
Disposals and sales	—	(1,111)	(869)	(1,980)
Impairment losses	(33,204)	(45)	(2,811)	(36,060)
Amortization	—	(18,445)	(9,496)	(27,941)
Exchange rate differences	(5,114)	(250)	(2,477)	(7,841)
Other changes	(3,415)	215	(589)	(3,789)
December 31, 2015				
Cost	432,105	169,106	105,903	707,114
Accumulated amortization and accumulated impairment losses	(62,677)	(101,219)	(28,466)	(192,362)
Carrying amount	369,428	67,887	77,437	514,752
Increases	—	39,101	2,002	41,103
Acquisition through business combinations	18,074	849	633	19,556
Disposals and sales	—	(861)	(0)	(861)
Impairment losses	(17,192)	(4,980)	(2,941)	(25,113)
Amortization	—	(20,334)	(8,770)	(29,104)
Exchange rate differences	(11,544)	(404)	(2,400)	(14,348)
Other changes	(334)	247	189	102
December 31, 2016				
Cost	436,469	201,639	106,583	744,691
Accumulated amortization and accumulated impairment losses	(78,037)	(120,134)	(40,433)	(238,604)
Carrying amount	358,432	81,505	66,150	506,087

Software under intangible assets mainly comprises internally generated software.

Amortization of intangible assets is presented in “Operating expenses” in the Consolidated Statements of Income.

Research and development expenses recognized as expenses for the years ended December 31, 2015 and 2016 were ¥8,364 million and ¥9,977 million, respectively.

Goodwill acquired through business combinations for the year ended December 31, 2015 is mainly attributable to the acquisition of OverDrive Holdings, Inc. For details, please refer to Note 44 “Business Combinations.”

Acquisitions of Others within Intangible Assets through business combinations for the year ended December 31, 2015 are mainly attributable to customer-related intangible assets and trademarks acquired in the acquisition of OverDrive Holdings, Inc. of ¥16,202 million. For details, please refer to Note 44 “Business Combinations.”

(2) Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

The balance of goodwill and intangible assets with indefinite useful lives of each CGU or group of CGUs is as follows. Intangible assets with indefinite useful lives mainly comprise trademarks. These trademarks, which were acquired in business combinations, will basically continue to exist as long as the business continues and thus are considered to be intangible assets with indefinite useful lives.

		(Millions of Yen)	
		December 31, 2015	
Operating segment	CGU	Goodwill	Intangible assets with indefinite useful lives
Internet Services	Ebates Inc.	¥97,211	¥—
	OverDrive Holdings, Inc.	37,664	—
	Others	78,938	3,153
	Total	213,813	3,153
FinTech	Rakuten Bank, Ltd.	32,886	—
	Others	19,348	—
	Total	52,234	—
Others	VIBER MEDIA LTD.	99,399	—
	Others	3,982	—
	Total	103,381	—
Total		369,428	3,153

		(Millions of Yen)	
		December 31, 2016	
Operating segment	CGU or a group of CGUs	Goodwill	Intangible assets with indefinite useful lives
Internet Services	Internet Services segment	¥305,536	¥2,938
	Rakuten Bank, Ltd.	32,886	—
FinTech	Others	20,010	—
	Total	52,896	—
Total		358,432	2,938

For the year ended December 31, 2015

For the year ended December 31, 2015, impairment losses of ¥14,436 million and ¥2,811 million relating to goodwill and trademarks of PRICEMINISTER S.A.S., respectively, an impairment loss of ¥7,808 million relating to goodwill of Rakuten Kobo Inc. and an impairment loss of ¥10,960 million relating to goodwill allocated to the CGU of others in the Internet Services segment were recorded.



For the year ended December 31, 2016

For the year ended December 31, 2016, an impairment loss of ¥17,192 million relating to goodwill allocated to the CGU of others in the Internet Services segment was recorded prior to the re-allocation of goodwill.

The Group Companies perform impairment testing of goodwill at least annually, regardless of whether there is any indication of impairment. Intangible assets with indefinite useful lives are not amortized; instead they are tested for impairment annually. The Group Companies individually determine the timing of impairment test for goodwill and intangible assets with indefinite useful lives taking into consideration the timing of the formulation of the relevant business plan. Indications of impairment are also assessed every quarter; and if any such indication exists, impairment testing is performed.

When conducting an impairment test, the Group Companies, as a general rule, consider each company to be a CGU. A CGU is the smallest identifiable group of assets, which generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill is allocated to CGUs or groups of CGUs expected to benefit from synergies associated with business combinations.

During the year ended December 31, 2016, goodwill was re-allocated in conjunction with the reorganization of the Group and the Group's reporting structure. As a result, in the Internet Services segment, goodwill was subject to monitoring for internal management purposes, due to the expectations for the segment to benefit from intercompany synergies. Accordingly, impairment testing is conducted for the group of CGUs. Meanwhile, in the FinTech segment, impairment testing is conducted, as a general rule, with each company as a CGU, in light of the unique business environment of each company.

The recoverable amount of a CGU or a group of CGU with allocated goodwill is the higher of value in use and fair value less costs of disposal. On December 31, 2016, the recoverable amounts of all CGUs or groups of CGUs to which goodwill was allocated were determined with reference to their calculated values in use.

Value in use is calculated based on the business plans approved by the management of each CGU or group of CGU, using pre-tax, estimated future cash flows for primarily three to five years and other assumptions for a three to five year period. These business plans have been drawn up based primarily on gross merchandise sales in the Internet Services, and the number of accounts and the number of registered members in the FinTech segment. For periods beyond those covered by the business plans, the terminal value is assessed.

Terminal value is calculated using the estimated growth rate of each CGU or group of CGU. Also the pre-tax discount rate used in the assessment of value in use is calculated for each CGU or group of CGU.

The growth rates used in predicting cash flows for periods beyond those covered by the business plans of each CGU reflect the status of the country and the industry to which the CGU belongs and do not exceed the average long-term growth rate of the industry in which the CGU is active. Pre-tax discount rates used in calculating terminal value reflect the inherent risks of the relevant businesses of each CGU or group of CGU. Discount rates are determined based on comparable companies of each CGU or group of CGU, incorporating market interest rates, the size of the subsidiary comprising the CGU, and other factors.

Additionally, the business plan, which forms the basis for the measurement of the recoverable amount in the impairment tests of goodwill and intangible assets with indefinite useful lives, is compared with past performance and consideration is made as to whether the business plan is a reasonable basis for predicting future cash flows.

Significant assumptions used in the calculation of the recoverable amount as of December 31, 2015 and 2016 are as follows. The following estimates have been used in the analysis of each CGU or group of CGU.

Operating segment	CGU	December 31, 2015	
		Growth rate	Discount rate
Internet Services	Ebates Inc.	3.0%	15.9%
	OverDrive Holdings, Inc.	3.5%	13.0%
	Others	1.5%-5.0%	13.0%-27.3%
FinTech	Rakuten Bank, Ltd.	2.0%	11.5%
	Others	2.0%	13.0%-18.7%
Others	VIBER MEDIA LTD.	3.0%	16.4%
	Others	2.0%	13.6%

Operating segment	CGU	December 31, 2016	
		Growth rate	Discount rate
Internet Services	Internet Services segment	2.0%	8.5%
FinTech	Rakuten Bank, Ltd.	2.0%	9.7%
	Others	2.0%	14.8%-16.6%

#### Sensitivity Analysis

The recoverable amounts of CGUs and groups of CGUs to which goodwill and intangible assets with indefinite useful lives have been allocated significantly exceed their carrying amounts, therefore the Group Companies judge that significant impairment is unlikely to occur for these CGUs and groups of CGUs, even if the major assumptions used in impairment testing were to change within a reasonably predictable range.

#### (3) Impairment of Intangible Assets (Except for Goodwill and Intangible Assets with Indefinite Useful Lives)

The Group Companies assess, at each reporting date, whether there is an indication that intangible assets (except for goodwill and intangible assets with indefinite useful lives) may be impaired. If any indication exists, the Group Companies estimate the recoverable amount of the asset.

In principle, the Group Companies estimate the recoverable amount for the individual asset, but if estimation of the recoverable amount of individual assets is not possible, an estimation of the recoverable amount of the CGU to which the asset belongs is made. Idle assets for which future use is not anticipated are considered individually.

For the year ended December 31, 2015

In the year ended December 31, 2015, with respect to an impairment loss of intangible assets (except for goodwill and intangible assets with indefinite useful lives) arising in the Internet Services segment, ¥45 million was recorded within "Impairment loss" and ¥32 million was recorded within "Other expenses" in the Consolidated Statements of Income.

For the year ended December 31, 2016

In the year ended December 31, 2016, with respect to an impairment loss of intangible assets (except for goodwill and intangible assets with indefinite useful lives) arising in the Internet Services segment, ¥7,921 million was recorded within "Impairment loss" in the Consolidated Statements of Income.

#### 19. Deposits for Banking Business Breakdown of Deposits for Banking Business

(Millions of Yen)		
	December 31, 2015	December 31, 2016
Financial liabilities measured at amortized cost		
Demand deposits	¥731,644	¥979,052
Time deposits	586,385	498,806
Total financial liabilities measured at amortized cost	1,318,029	1,477,858
Financial liabilities measured at FVTPL		
Time deposits	48,755	28,088
Total deposits for banking business	1,366,784	1,505,946

## 20. Financial Liabilities for Securities Business

### Breakdown of Financial Liabilities for Securities Business

(Millions of Yen)		
	December 31, 2015	December 31, 2016
Accounts payable relating to investment securities transactions	¥223,993	¥249,318
Margin transactions liabilities	44,739	78,785
Deposits received	339,137	381,004
Borrowings secured by securities	140,867	124,367
Guarantee deposits received	238,453	226,064
Others	55	101
Total financial liabilities for securities business	987,244	1,059,639

Financial liabilities for securities business are measured at amortized cost.

Derivative liabilities classified as held for trading are included in "Derivative liabilities."

## 21. Bonds and Borrowings

### Schedule of Bonds

(Millions of Yen)				
Name	Type	Interest rate	December 31, 2015	December 31, 2016
Rakuten, Inc.	Rakuten, Inc. The 1st unsecured bond Currency: JPY Maturity: three years	0.377%	¥9,976	¥9,992
Rakuten, Inc.	Rakuten, Inc. The 2nd unsecured bond Currency: JPY Maturity: three years	0.38%	19,938	19,980
Rakuten, Inc.	Rakuten, Inc. The 3rd unsecured bond Currency: JPY Maturity: three years	0.07%	—	19,927
Rakuten, Inc.	Rakuten, Inc. The 4th unsecured bond	0.13%	—	9,949

		Currency: JPY		
		Maturity: five years		
Rakuten, Inc.		Rakuten, Inc. The 5th unsecured bond	0.25%	9,945
		Currency: JPY		
		Maturity: seven years		
Rakuten Co., Ltd.	Card	The 1st unsecured bond	0.91%	448
		Currency: JPY	746	
		Maturity: five years		
		Total bonds	—	70,241
			30,660	

All bonds are measured at amortized cost.

The nominal interest rates applied for each bond in the year ended December 31, 2015 or 2016 are stated in the "Interest rate" column, and they differ from the effective interest rates.

During the year ended December 31, 2016, the Company issued the 3rd unsecured bond of ¥20,000 million (interest rate: 0.07%, redemption: June 25, 2019), the 4th unsecured bond of ¥10,000 million (interest rate: 0.13%, redemption: June 25, 2021) and the 5th unsecured bond of ¥10,000 million (interest rate: 0.25%, redemption: June 23, 2023).

During the year ended December 31, 2016, the 1st unsecured bond of Rakuten Card Co., Ltd. of ¥300 million was redeemed (interest rate: 0.91%, redemption: March 15, 2018).

#### Schedule of Borrowings

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Short-term debt	¥154,201	¥98,879
Long-term debt		
Floating-rate debt	361,202	334,736
Fixed-rate debt	89,132	165,248
Commercial paper	14,000	42,000
Total borrowings	618,535	640,863

All borrowings are measured at amortized cost.

#### Schedule of Maturity and Interest Rate of Borrowings

	December 31, 2015		December 31, 2016	
	Maturity	Interest rate	Maturity	Interest rate
Short-term debt	—	0.155% -1.975%	—	0.01% -2.75%
Long-term debt				
Floating-rate debt	2 years to 8 years	0.57091% -2.04%	3 years to 8 years	0.45727% -1.65%
Fixed-rate debt	1 year to 25 years	0.1% -4.38%	3 years to 25 years	0% -4.38%
Commercial paper	—	0.3% -0.45%	—	0.008% -0.2%

Maturities of short-term debt and commercial paper are less than one year, and thus the description is omitted.

The nominal interest rates applied for each borrowing are stated in the “Interest rate” column, and they differ from the effective interest rates. In addition, floating-rate debt includes the underlying hedged items of cash flow hedges where floating rate debt is swapped for fixed rate debt, and the interest rates stated in the “Interest rate” column incorporate the effect of the cash flow hedges.

## 22. Other Financial Liabilities

### Breakdown of Other Financial Liabilities

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Other payables	¥109,056	¥115,289
Accrued expenses	36,494	37,925
Deposits received	92,383	129,853
Margin deposits received	5,589	5,226
Others	24,926	9,196
Total other financial liabilities	268,448	297,489

Other financial liabilities are measured at amortized cost.

## 23. Provisions

### (1) Schedule of Changes in Provisions

	(Millions of Yen)		
	Provision for customer points	Others	Total
January 1, 2015	¥39,527	¥4,442	¥43,969
Increases during the period (provisions made)	49,120	3,059	52,179
Increases during the period (others)	6	223	229
Decreases during the period (provisions used)	(39,415)	(2,544)	(41,959)
Decreases during the period (others)	(73)	(216)	(289)
December 31, 2015	49,165	4,964	54,129
Increases during the period (provisions made)	59,394	631	60,025
Increases during the period (others)	15	851	866
Decreases during the period (provisions used)	(48,749)	(605)	(49,354)
Decreases during the period (others)	(235)	(196)	(431)
December 31, 2016	59,590	5,645	65,235

### (2) Provision for Customer Points

The Group Companies operate point programs, including the Rakuten Super Points program, for the purpose of promoting members' transactions within the Group Companies, whereby members are granted points for their purchase of goods at Rakuten Ichiba shops, use of services such as Rakuten Travel, use of Rakuten Card, various membership registrations within the Group Companies and customer referrals. Members are able to exchange accumulated points for products and services, obtain discounts, or transfer their points to point programs of other companies. Points have an expiry date and once they expire a member forfeits the right to use

them.

In anticipation of the future use of such points by members, the Group Companies recorded a provision for customer points at an estimated amount based on historical experience. These are estimates and there is an inherent uncertainty regarding the extent of usage of such points by members.

(3) Other Provisions

Other provisions include asset retirement obligations and provision for loss on interest repayments.

These provisions are attributable to transactions in the ordinary course of business, and, are not individually significant.

24. Policy Reserves and Others for Insurance Business

(1) Breakdown of policy reserves and others for insurance business

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Reserve for outstanding claims	¥1,878	¥1,762
Liability reserves	19,757	22,700
Total policy reserves and others for insurance business	21,635	24,462

Regarding the funding method for liability reserves, the method stipulated in the Notification No. 48 of the Ministry of Finance, 1996 is applied for contracts subject to standard liability reserves, and the level premium method is applied for contracts not subject to standard liability reserves. Mortality rates based on Standard Mortality Table 2007 (Standard Mortality Table 1996 for contracts with an effective date on or before March 31, 2007) and a product crediting rate of 1.0% (1.5% for contracts with a policy inception date on or before March 31, 2013 and 2.0% for contracts with an effective date on or before March 31, 2001) are used for the calculation of liability reserves.

The breakdown of changes in policy reserves is as follows.

	(Millions of Yen)	
	Year ended December 31, 2015	Year ended December 31, 2016
Balance at the beginning of the year	¥19,847	¥21,635
Insurance premium (net) (Note 1)	15,091	15,660
Insurance claims and other payments	(10,156)	(9,918)
Other changes (Note 2)	(3,147)	(2,915)
Balance at the end of the year	21,635	24,462

(Notes) 1 The amount is calculated by deducting costs allocated to the operation of the insurance business from insurance revenue, etc.

2 The amount includes interest on liability reserves, mortality gain, etc.

(2) Liability Adequacy Test for Insurance Contracts

The Group Companies perform a liability adequacy test for insurance contracts taking into consideration estimated present value of cash inflows, such as related insurance premiums and investment income, and cash outflows, such as insurance claims and benefits and operating expenses. As a result of testing, the amount of the liability was considered to be adequate, and

no additional recognition of liability and expense was recognized.

### (3) Insurance Risk

For sound and appropriate insurance business operations, it is important to accurately comprehend and adequately manage increasingly diversified and complex risks. Therefore, a cross-organizational risk management framework was developed, and the role and process at departments responsible for risk management were clarified. The Group Companies ensure appropriate business operations by having all employees and officers fully understand the importance of risk management. Specifically, the Group Companies established a cross-organizational "Risk Management Committee," and undertake the following overall risk management activities: appointing departments responsible for risk management according to the type of risk; developing a risk management framework; comprehending, analyzing and assessing risk status; and instructing operational departments.

Concerning insurance underwriting risk as a major risk in the insurance business, the Group Companies have identified and analyzed risks through regular monitoring of the frequency of insured events and surrender ratio. In developing new products, risk analysis is carried out in consideration of an appropriate balance with profitability.

Under Japanese laws and regulations, life insurance companies are required to calculate risks associated with payments of insurance claims and benefits and risks associated with asset management in preparation for the occurrence of various risks to which life insurance companies are exposed on a scale beyond a normally predictable level. The amounts equivalent to risks before tax are as follows, which are recognized as representing the impact on the Consolidated Statements of Income in the event of occurrence of such risks. The confidence level of risk quantity is generally assumed to be 95%, with variance depending on the type of risk.

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Insurance risk impact amount	¥390	¥413
Third-sector insurance risk impact amount	891	878
Product crediting rate risk impact amount	3	3
Minimum guarantee risk impact amount	—	—
Investment risk impact amount	1,142	1,370
Business risk impact amount	49	53

The Group Companies only handle standard insurance products, and insured events are mainly death (first sector product), hospitalization and surgery, etc. (third sector product). The policy period of insurance products is mainly 10 years and lifetime, and the insurance liabilities vary with the acquisition of new contracts, occurrence of insured events and contract cancellations, etc.

In future periods covered by the liability adequacy test it is expected that insurance revenues will exceed the associated insurance costs.

## 25. Income Tax Expense

The deferred tax assets and liabilities as of December 31, 2015 and 2016 include the following:  
(Millions of Yen)

	December 31, 2015	December 31, 2016
<b>Deferred tax assets</b>		
Tax losses carried forward	¥23,114	¥18,521
Allowance for doubtful accounts	4,208	6,660
Provision for customer points	16,167	18,382
Others	17,901	19,766
<b>Total</b>	<b>61,390</b>	<b>63,329</b>
<b>Deferred tax liabilities</b>		
Gains and losses of financial assets measured at FVTOCI	(6,130)	(5,063)
Intangible assets	(27,700)	(26,935)
Assets arising from contract costs	(9,324)	(12,054)
Others	(10,401)	(11,024)
<b>Total</b>	<b>(53,555)</b>	<b>(55,076)</b>
<b>Net amount of deferred tax assets</b>		
Deferred tax assets	28,252	25,681
Deferred tax liabilities	(20,417)	(17,428)
<b>Net</b>	<b>7,835</b>	<b>8,253</b>



The changes in net deferred tax assets and liabilities were as follows:  
For the year ended December 31, 2015

(Millions of Yen)

	January 1, 2015	Cumulative effects of changes in accounting policies	Recognized in profit or loss	Recognized in other comprehensive income	Changes in scope of consolidation	Others	December 31, 2015
Tax losses carried forward	¥17,329	¥—	¥1,968	¥(479)	¥4,296	¥—	¥23,114
Allowance for doubtful accounts	4,190	—	18	—	—	—	4,208
Provision for customer points	14,150	—	2,017	—	—	—	16,167
Gains and losses of financial assets measured at FVTOCI	(1,479)	—	—	(4,651)	—	—	(6,130)
Intangible assets	(20,191)	—	(723)	515	(7,301)	—	(27,700)
Assets arising from contract costs	—	(7,305)	(2,019)	—	—	—	(9,324)
Others	8,570	—	(1,874)	439	(335)	700	7,500
Total	22,569	(7,305)	(613)	(4,176)	(3,340)	700	7,835

For the year ended December 31, 2016

(Millions of Yen)

	January 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	Changes in scope of consolidation	Others	December 31, 2016
Tax losses carried forward	¥23,114	¥(4,694)	¥(529)	¥630	¥—	¥18,521
Allowance for doubtful accounts	4,208	2,452	—	—	—	6,660
Provision for customer points	16,167	2,215	—	—	—	18,382
Gains and losses of financial assets measured at FVTOCI	(6,130)	—	1,067	—	—	(5,063)
Intangible assets	(27,700)	298	567	(100)	—	(26,935)
Assets arising from contract costs	(9,324)	(2,730)	—	—	—	(12,054)
Others	7,500	2,101	468	(243)	(1,084)	8,742
Total	7,835	(358)	1,573	287	(1,084)	8,253

The breakdown of deductible temporary differences, tax losses carried forward and tax credits carried forward for which no deferred tax asset is recognized in the consolidated statements of financial position is as follows:

(Millions of Yen)

	December 31, 2015	December 31, 2016
Deductible temporary differences	¥1,250	¥866
Unused tax losses carried forward	35,936	48,650
Tax credits carried forward	54	5
Total	37,240	49,521

Deferred tax assets associated with the above are not recognized, as it is unlikely that future taxable income necessary for the Group Companies to utilize their benefits would be generated.

Tax losses carried forward for which no deferred tax asset is recognized in the consolidated statements of financial position, if unutilized, will expire as follows:

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
One year or less	¥1,235	¥51
Over one year to five years	2,039	1,837
Over five years	32,662	46,762
Total	35,936	48,650

There are no deductible temporary differences with an expiry date or significant temporary differences associated with investments in subsidiaries and associates accounted for using the equity method for which there are unrecognized deferred tax liabilities. There will be no significant impact on the Group Companies' tax payment, even if the retained earnings of the subsidiaries or associates are remitted to the Group Companies in the future.

Breakdown of income tax expense recognized through income is as follows:

	(Millions of Yen)	
	Year ended December 31, 2015	Year ended December 31, 2016
Current tax expense		
Income tax expense for net income	¥47,094	¥35,564
Subtotal	47,094	35,564
Deferred tax expense		
Generation and reversal of temporary difference	(351)	(6,385)
Changes in unused tax losses carried forward	(1,968)	4,694
Impact of changes in tax rates, etc. due to tax reform (Note 2)	2,932	2,049
Subtotal	613	358
Total income tax expense	47,707	35,922

(Notes) 1 The Company is mainly subject to income taxes, inhabitant tax and deductible enterprise tax, and the statutory tax rates calculated based on these taxes were 36.0% for the previous fiscal year, and 33.0% for the current fiscal year.

2 Following the enactment by the Diet of the "Act on Partial Revision of the Income Tax Act, etc." and "Act on Partial Revision, etc. of the Local Tax Act, etc." on March 29, 2016, and the "Act for Partial Revision to the Partial Revision, etc. of the Consumption Tax Act for Comprehensive Reform of Tax to Secure Stable Financial Resources for Social Security, etc." and the "Act for Partial Revision to the Partial Revision, etc. of Local Tax Act and Local Allocation Tax Act for Comprehensive Reform of Tax to Secure Stable Financial Resources for Social Security, etc." on November 18, 2016, the statutory tax rate used for calculating deferred tax assets and deferred tax liabilities for the current fiscal year (only for those expected to be eliminated on or after January 1, 2017) has been changed from 33.0% in the previous fiscal year to 31.0%.

Reconciliations between the statutory tax rates in Japan and effective tax rates on income tax expense as presented in the Consolidated Statements of Income are as follows:

	(%)	
	Year ended December 31, 2015	Year ended December 31, 2016
Statutory tax rate in Japan	36.0	33.0
(Reconciliations)		
Permanent non-deductible items	1.6	1.7
Permanent non-taxable items	(0.4)	(0.8)
Impact of changes in tax rates, etc. due to tax reform	3.2	2.8
Effect from assessing recoverability of deferred tax assets	2.1	3.6
Differences due to statutory tax rate of subsidiaries (Note 1)	(2.4)	1.2
Impairment of goodwill (Note 2)	12.3	8.2
Others	(0.5)	(1.1)
Effective tax rate on income tax expense	51.9	48.6

(Notes) 1 The difference is due to difference in the statutory tax rate of Japan, where the Company is located, and that of the other jurisdictions where certain subsidiaries are located.

2 Please refer to impairment of goodwill and intangible assets with indefinite useful lives in Note 18. Intangible Assets (2)

## 26. Common Stock, Capital Surplus, Retained Earnings and Treasury Stock

### Common Stock

Schedule of shares authorized to be issued and total number of shares issued.

	(Thousands of shares)	
	Total number of authorized shares (Common stock with no par value)	Total number of shares issued (Common stock with no par value)
January 1, 2015	3,941,800	1,328,603
Changes during the period:		
Increase due to issuance of common stock (Note)	—	101,771
December 31, 2015	3,941,800	1,430,374
Changes during the period:		
Increase due to issuance of common stock	—	2,049
December 31, 2016	3,941,800	1,432,423

(Note) Increase due to issuance of common stock is primarily for the following reason.

In order to strengthen the financial base in preparation for sustained future growth and enhance flexibility of financial strategies, the Company made a resolution at the meeting of the Board of Directors held on June 4, 2015, for the issuance of 99,607 thousand new shares in the form of public offerings in Japan as well as offering in the overseas markets (which, in the United States however, is restricted to sales to qualified institutional investors in accordance with Rule 144A under the U.S. Securities Act of 1993), and received the proceeds from the issuance on June 30, 2015.

### Capital Surplus

The Companies Act of Japan (hereinafter referred to as the “Companies Act”) requires that at least 50% of the proceeds of certain issues of common shares be credited to common stock, while the remainder of the proceeds be credited to capital reserve included in capital surplus. The Companies Act permits, upon approval at the General Shareholders’ Meeting, the transfer of

amounts from capital reserve to common stock.

#### Retained Earnings

The Companies Act requires that an amount equal to 10% of dividends of retained earnings be appropriated as capital reserve (within capital surplus) or as legal reserve (within retained earnings) until the aggregate amount of the capital reserve and the legal reserve equals to 25% of common stock. The legal reserve may be used to eliminate or reduce a deficit or be transferred to retained earnings upon approval at the General Shareholders' Meeting.

Retained earnings available for dividends under the Companies Act are based on the amount recorded in the Company's general accounting records prepared in accordance with JGAAP.

#### Treasury Stock

##### Schedule of Changes in Treasury Stock

	(Thousands of shares)	
	Year ended December 31, 2015	Year ended December 31, 2016
January 1	6,008	6,009
Acquisition	1	0
Disposal	—	—
December 31	6,009	6,009

#### Stocks of the Company Held by Subsidiaries or Associates

##### Schedule of Changes in Stocks of the Company Held by Subsidiaries or Associates

	(Thousands of shares)	
	Year ended December 31, 2015	Year ended December 31, 2016
January 1	79	—
Acquisition	—	—
Others (Note)	(79)	—
December 31	—	—

(Note) Others for the year ended December 31, 2015 is due to the exclusion from the scope of consolidation of a company holding 79,000 shares of the Company during the third quarter.

## 27. Revenue

### (1) Breakdown of Revenue

#### 1) Revenue Arising from Contracts with Customers and Other Sources

	(Millions of Yen)	
	Year ended December 31, 2015	Year ended December 31, 2016
Revenue arising from contracts with customers	¥565,357	¥617,186
Revenue arising from other sources	148,198	164,730
Total	713,555	781,916

Revenue arising from other sources includes interest and dividend income and other such income recognized in accordance with IFRS 9 and insurance revenues recognized in accordance with IFRS 4.

2) Relationship between Breakdown of Revenue and Segment Revenue  
For the year ended December 31, 2015

(Millions of Yen)

		Segment		
		Internet Services	FinTech	Total
Main service lines	Rakuten Ichiba and Rakuten Travel	¥189,517	¥—	¥189,517
	Ebates	40,808	—	40,808
	Rakuten Books	24,028	—	24,028
	Kenko.com	23,265	—	23,265
	Rakuten Communications	22,109	—	22,109
	Tohoku Rakuten Golden Eagles	10,949	—	10,949
	OverDrive	14,558	—	14,558
	Rakuten Card	—	92,199	92,199
	Rakuten Bank	—	53,174	53,174
	Rakuten Securities	—	47,534	47,534
	Rakuten Life Insurance	—	32,245	32,245
	Others	152,689	10,480	163,169
	Total	477,923	235,632	713,555
Revenue arising from contracts with customers		477,923	87,434	565,357
Revenue arising from other sources		—	148,198	148,198

(Note) Amounts are after eliminations of intercompany transactions.

For the year ended December 31, 2016

(Millions of Yen)

		Segment		
		Internet Services	FinTech	Total
Main service lines	Rakuten Ichiba and Rakuten Travel	¥194,591	¥—	¥194,591
	Ebates	49,331	—	49,331
	Rakuten Books	26,523	—	26,523
	Kenko.com	24,646	—	24,646
	OverDrive	21,706	—	21,706
	Rakuten Communications	19,437	—	19,437
	Tohoku Rakuten Golden Eagles	11,327	—	11,327
	Rakuten Card	—	108,829	108,829
	Rakuten Bank	—	59,621	59,621
	Rakuten Securities	—	41,205	41,205
	Rakuten Life Insurance	—	32,755	32,755
	Others	181,933	10,012	191,945
	Total	529,494	252,422	781,916
Revenue arising from contracts with customers		529,494	87,692	617,186
Revenue arising from other sources		—	164,730	164,730

(Note) Amounts are after eliminations of intercompany transactions.

Interest and dividend income and other such income are recorded as revenue in accordance with IFRS 9, and proceeds from the insurance business are also recorded as revenue in accordance with IFRS 4. For the year ended December 31, 2015, Rakuten Card, Rakuten Bank and Rakuten Securities recorded revenue of ¥58,780 million, ¥38,485 million and ¥18,309 million, respectively, in accordance with IFRS 9. Rakuten Life Insurance recorded revenue of ¥31,928 million in accordance with IFRS 4. For the year ended December 31, 2016, revenues were ¥72,171 million, ¥44,225 million and ¥15,440 million, respectively. Rakuten Life Insurance recorded revenue of ¥31,324 million in accordance with IFRS 4.

The Group Companies together form a Global Innovation Company engaged in Internet Services and FinTech, operating in multiple businesses including its core EC business. Revenues arising from these businesses are recognized based on contracts with customers. There are no material revenues which are subject to variable consideration. In addition, the amount of promised consideration does not include significant financial elements.

### Internet Services

With regard to the Internet Services segment, the Group Companies engage in EC businesses such as Rakuten Ichiba, Rakuten Travel, Ebates, Rakuten Books, Kenko.com, OverDrive, Rakuten Communications, Tohoku Rakuten Golden Eagles and a variety of other Internet businesses. The primary revenues in the Internet Services segment are described below.

#### Rakuten Ichiba and Rakuten Travel

A fundamental characteristic of marketplace model EC services including Rakuten Ichiba and travel booking services such as Rakuten Travel is to provide EC platforms for trading to customers, and the Group Companies provide merchants and travel-related businesses with services including EC platform services, transaction related services, advertising related services to promote the expansion of sales through the Group Companies, and payment agency services related to settlements between merchants or travel-related businesses and consumers. The nature of the services and the related rights and obligations are stipulated in various agreements with customers. Performance obligations are identified based on whether services are distinct or not, and the pattern of transfer to the customer. Revenues from major performance obligations are recognized as described below.

With regard to EC platform services, the Group Companies have obligations to provide services for merchants to open and operate on our EC platform and related consulting services and other similar services for a contracted term. These services are provided over time, and so these performance obligations are satisfied as time passes. Accordingly, the revenue is recognized over the contracted term on a monthly basis based on the amount stipulated in the agreement for each type of shop. Furthermore, consideration for a transaction is received at the time of contract in the form of advance payment for the period of three months, six months or one year, prior to the satisfaction of performance obligations.

The Group Companies have obligations based on agreed terms to provide services to match merchants and travel-related businesses with Rakuten users, and to enable the resultant transactions to be processed appropriately. These performance obligations are satisfied when the individual transaction between merchants or travel-related businesses and Rakuten users is completed. Revenues are recognized at the point of satisfaction of these performance obligations, based on the gross amount of merchandise sales (monthly sales of merchants and travel-related businesses) of completed transactions multiplied by the specified ratio stipulated

separately for each service, plan, or amount of gross merchandise sales. The related payments are receivable approximately within three months of the completion of the transaction.

With regard to advertising-related services, the Group Companies have obligations to provide fixed-term advertisements to customers. The advertising related services are provided by displaying the advertisement over the contracted term, and the progress of providing the service is measured based on the passage of time. Therefore, performance obligations are satisfied over the contract term, and revenues are recognized evenly over the contract term according to the amount stipulated in the agreement for each type of advertisement. Advertising fees are, in principle, paid by the end of the second subsequent month after the month that includes the advertising commencement date.

With regard to payment agency services, based on credit card settlement agreements, the Group Companies have obligations to provide payment agency services between merchants and travel-related businesses and users of the Group Companies. These services are to process data for authorization, settlement and cancellation of credit card transactions. Commission revenues arising from these transactions are primarily recognized based on the amount stipulated in the agreement when customers use their credit cards, because the performance obligations are satisfied at that point. Commissions are received within one month and a half after the invoice date set out for each payment category, following the satisfaction of performance obligations.

#### Ebates

Ebates provides various services such as services for promoting Ebates members' purchase at the websites of the retailers (customers) through offering cash back to the Ebates members (hereinafter "cash back service"), web advertising and targeting mail services for individual consumers. As for its core service, cash back service, Ebates is contractually obligated to promote Ebates members' purchase at the retailers' websites. Thus, such performance obligations are considered to be satisfied at the point of purchase by Ebates members. Upon confirmation of the purchase by an Ebates member, an amount calculated by multiplying the purchase amount by a certain rate is recorded as commission revenue, and cash back expenses for the Ebates member are recorded simultaneously. Revenue and expenses arising from the provision of this service are recorded on a gross basis, as Ebates has the right to enforce discretionary control of the customers and Ebates members over the transactions including pricing. Payments of fees are received approximately within three months from the end of the month in which the order is completed and performance obligations are satisfied.

#### Rakuten Books and Kenko.com

In the Internet Services segment, when the Group Companies provide goods mainly for Rakuten users of Internet shopping sites, such as Rakuten Books and Kenko.com, the Group Companies are the principal in the sales contracts. In these direct selling services, revenue is recognized when goods are delivered to the customer. In addition, payments are received approximately within two months after the delivery of goods when performance obligations are satisfied. For Japanese book sales through Rakuten Books, revenues are recognized on a net basis after deducting costs of sales, because the role of the Group Companies in these transactions has the nature of an agent given the resale price maintenance system in Japan.

#### OverDrive

With regard to OverDrive, the Group Companies provide contents distribution services, including e-books and audio books for libraries and educational institutions. The Group Companies have

obligations based on agreements with libraries, which are the main customers, to distribute contents and provide services relating to hosting and customer support. In terms of the distribution of contents, performance obligations are considered to be satisfied at the point of purchase of the contents by the libraries, and thus the revenue is recognized at that point. Payments relating to such performance obligations are received approximately within two months of the invoice month. Performance obligations with respect to services relating to hosting and customer support are satisfied over the contract term as time passes, and the revenue is recognized evenly over the contract term in which such performance obligations are satisfied. Furthermore, consideration for a transaction is received each year in the form of advance payment prior to the satisfaction of performance obligations.

#### Rakuten Communications

With regard to Rakuten Communications, the Group Companies provide telephone related services to subscribers such as telephone relay services, Internet connection services and other services. For telephone related services, maintaining utilizable telephone circuits at all times and providing telephone communication service using the circuits based on the respective contract are identified as performance obligations. The performance obligation for maintaining utilizable telephone circuits is satisfied over the period, and the performance obligation for providing telephone communication service is satisfied when the telephone circuits are utilized. Therefore, revenues arising from providing telephone circuits are recognized evenly over the contract term, while for the provision of telephone communication service, subscriber fees according to the actual usage of telephone circuits are recognized on monthly basis. For Internet connection service, providing users with Internet access over the contract terms is identified as a performance obligation, and therefore, Internet connection revenues are recognized on monthly basis. Payments of the amounts recorded as monthly revenues are received in accordance with the settlement method selected by the user within a short period of time, after the satisfaction of performance obligations subject to the payment terms and conditions set out separately by the credit card companies, etc.

#### Tohoku Rakuten Golden Eagles

With regard to Tohoku Rakuten Golden Eagles, the Group Companies engage in the sales of tickets and merchandise for Tohoku Rakuten Golden Eagles, and advertising services. For ticket sales, revenues are recognized when each baseball game is held because the performance obligation is considered to be satisfied at that point. Payments for tickets are received in accordance with the settlement method selected by the purchaser after the application for reservation is completed, subject to the payment terms and conditions set out separately by the credit card companies, etc. For sales of goods, revenues are recognized when goods are delivered because the performance obligation is satisfied at the point of delivery. Payments for goods are received at the time of delivery when the performance obligation is satisfied. For advertising services, the performance obligations are satisfied over the contract term, and revenues are recognized evenly over the contracted term according to the amount stipulated in the agreement for each type of advertisement. Advertising fees are paid within four months, in principle, after the commencement of the contract period.

#### FinTech

With regard to the FinTech segment, the Group Companies engage in financial services businesses such as Rakuten Card, Rakuten Bank, Rakuten Securities and Rakuten Life Insurance, and recognize the primary revenues as follows.



### Rakuten Card

With regard to Rakuten Card, the Group Companies engage in the credit card business, and receive interchange fees for settlement services between credit card users and member shops as well as, revolving payment commissions, installment commissions, and commissions arising from cash advances. With regard to interchange fees, the performance obligation, which is the provision settlement services, is satisfied at the time of the sales data transfer from a member shop to Rakuten Card Co., Ltd. as a result of a credit card purchase. Therefore, commission revenues which are at fixed rates of the settlement amounts are recognized at that point in time. In addition, basic points worth 1% of the settlement amounts are granted to the card members, and the expenses associated with the granting of these points are deducted from the interchange fees. As Rakuten Card Co., Ltd. collects credit card payments from the card members once a month, in principle, on a predetermined date, the payments are in substance received approximately within two months after the satisfaction of the performance obligations. For revolving payment commissions, installment commissions and commissions for cash advances with a finance element, the respective commissions, which are at fixed rates of the revolving balance, the number of payment installments or the amount of the cash advance are recognized as revenue over the period when the interest accrues in accordance with IFRS 9.

### Rakuten Bank

With regard to Rakuten Bank, the Group Companies provide a wide range of services including Internet banking (deposits, loans and foreign exchange) and other services. With regard to loans, the Group Companies handle loans such as personal loans, "Rakuten Super Loans," and housing loans, "Rakuten Bank home loans (flexible interest rate)," and earn interest income thereon. Interest income is also earned from investing activities such as interest on securities. This income, such as loan interest and interest earned on securities is recognized over the period in accordance with IFRS 9. With regard to foreign exchange, commission revenue is recognized when the foreign exchange transactions are executed because the performance obligation is satisfied at the point of processing the transaction.

### Rakuten Securities

With regard to Rakuten Securities, the Group Companies engage in financial instruments transaction services and other associated services. Sources of revenue include commissions arising from these transactions, net trading gains, and interest, etc. There is a wide range of financial instruments transactions, including domestic stock transactions, foreign stock transactions, and sales of investments, and the commission structure for each transaction differs. For brokerage transactions, margin transactions and sales of investments, performance obligations are satisfied when trades are concluded on the trade date or other appropriate date, therefore revenues arising from brokerage transactions are recognized at that point in time. Commissions from spot transactions of shares are received within three business days in principle after the satisfaction of the performance obligations, while commissions from margin transactions and future transactions are received approximately within the period from six months to one year during which open contracts are settled. The Group Companies record revenue and operating expenses measured at fair value on foreign exchange margin transactions, and income received on open contracts of domestic margin transactions, in accordance with IFRS 9.

### Rakuten Life Insurance

With regard to Rakuten Life Insurance, the Group Companies engage in the life insurance business, and recognize fund management revenues which are primarily insurance premiums and interest on securities. These insurance revenues arise from protection-based life insurance

contracts for individuals, which are the primary products for Rakuten Insurance. Revenue from insurance premiums paid by policy holders calculated by using the rate stipulated in the respective contract is recognized in accordance with IFRS 4. Also, interest income is recognized as revenue over the period in accordance with IFRS 9.

(2) Accounts arising from contracts

Breakdown of the balance of contracts of the Group Companies is as follows:

For the year ended December 31, 2015

	(Millions of Yen)	
	January 1, 2015	December 31, 2015
Receivables arising from contracts with customers		
Notes and accounts receivable — trade	¥88,871	¥104,011
Accounts receivable based on installment contracts, etc. (Note)	566,124	699,694
Other financial assets	55,970	41,824
Total	710,965	845,529
Contract liabilities	14,290	17,715

(Note) This represents accounts receivable arising from the use of credit cards by customers based on installment contracts, etc., which are recorded under “Loans for credit card business” in the Consolidated Statements of Financial Position. Such accounts receivable include commissions received by the Group Companies.

Of the revenues recognized in the previous fiscal year, ¥13,861 million was included in the balance of contract liabilities as of January 1, 2015. In addition, the amount of revenues recognized during the previous fiscal year from the performance obligations satisfied (or partially satisfied) in the past periods was immaterial.

For the year ended December 31, 2016

	(Millions of Yen)	
	January 1, 2016	December 31, 2016
Receivables arising from contracts with customers		
Notes and accounts receivable — trade	¥104,011	¥117,088
Accounts receivable based on installment contracts, etc. (Note)	699,694	878,685
Other financial assets	41,824	34,302
Total	845,529	1,030,075
Contract liabilities	17,715	18,844

(Note) This represents accounts receivable arising from the use of credit cards by customers based on installment contracts, etc., which are recorded under “Loans for credit card business” in the Consolidated Statements of Financial Position. Such accounts receivable include commissions received by the Group Companies.

Of the revenues recognized in the current fiscal year, ¥16,305 million was included in the

balance of contract liabilities as of January 1, 2016. In addition, the amount of revenues recognized during the current fiscal year from the performance obligations satisfied (or partially satisfied) in the past periods was immaterial.

(3) Transaction Price Allocated to the Remaining Performance Obligations

The Group Companies retain no significant transactions for which an individual estimated contract period exceeds one year. In addition, consideration arising from contracts with customers do not comprise any significant amount that is not included in transaction price.

(4) Assets Recognized from the Costs to Obtain or Fulfill Contracts with Customers

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Assets recognized from costs to obtain a contract	¥23,593	¥33,094
Assets recognized from costs to fulfill a contract	5,238	5,573
Total	28,831	38,667

The Group Companies recognize the incremental costs of obtaining contracts with customers and the costs incurred in fulfilling contracts with customers that are directly associated with the contract as an asset if those costs are expected to be recoverable, and record them in “Other assets” in the Consolidated Statements of Financial Position. Incremental costs of obtaining contracts are those costs that the Group Companies incur to obtain a contract with a customer that would not have been incurred if the contract had not been obtained.

Incremental costs of obtaining contracts recognized as assets by the Group Companies are mainly the initial costs incurred related to the new memberships in the acquisition of customers. Costs incurred in fulfilling contracts with customers mainly comprise costs for issuing Rakuten Cards. Such costs arise from the granting of Rakuten Super Points to new Rakuten Card holders and would not have been incurred if the contracts had not been obtained. These costs are recognized as an asset to the extent they are considered recoverable based on the estimated active card member ratio. The related asset is amortized evenly over ten years based on the estimated contract terms, during which performance obligations are satisfied through the provision of settlement services following the members’ use of their Rakuten cards.

Also, the Group Companies assess collectability of assets arising from contract costs on recognition and at the end of each quarterly period. In making this assessment, the Group Companies consider whether the carrying amounts of such assets exceed the balance of the consideration which the Group Companies expect to be entitled to from the interchange for the relevant credit card related services over the estimated period of the contracts with the card members, less any unrecognized costs directly related to the provision of such services. Such accounting estimates and assumptions could have a significant impact on the amount of assets arising from contract costs recorded through the recognition of impairment losses should circumstances presumed change. Therefore, the Group Companies regard that these accounting estimates and assumptions are significant.

For the years ended December 31, 2015 and 2016, amortization associated with the assets arising from contract costs was ¥4,246 million and ¥6,870 million, respectively.

## 28. Operating Expenses

Breakdown of operating expenses for the years ended December 31, 2015 and 2016 is as follows:

	(Millions of Yen)	
	Year ended December 31, 2015	Year ended December 31, 2016
Advertising and promotion expenditures	¥100,554	¥121,286
Employee benefits expenses	133,919	145,116
Depreciation and amortization	40,122	44,257
Communication and maintenance expenses	19,327	20,345
Consignment and subcontract expenses	35,099	40,171
Allowance for doubtful accounts charged to expenses	22,119	26,694
Cost of sales of merchandise and services rendered	134,166	158,166
Interest expense for finance business	6,289	5,560
Commission fee expense for finance business	7,653	8,773
Insurance claims and other payments, and provision of policy reserves and others for insurance business	16,601	16,740
Others	85,152	90,490
<b>Total</b>	<b>601,001</b>	<b>677,598</b>

Employee expenses (employee benefits expenses) are as follows:

### 1) Schedule of Employee Expenses

	(Millions of Yen)	
	Year ended December 31, 2015	Year ended December 31, 2016
Wages and salaries	¥113,517	¥121,133
Retirement benefits	4,893	5,632
Legal welfare expenses	7,759	8,409
Stock option expenses relating to directors and employees (Note)	3,999	5,688
Other salaries	3,751	4,254
<b>Total</b>	<b>133,919</b>	<b>145,116</b>

(Note) Please refer to Note 35 Share-based Payments.

### 2) Number of Employees

	December 31, 2015	December 31, 2016
Number of employees	12,981	14,134

(Note) Number of employees represents the number of persons employed at the Group Companies.

## 29. Other Income and Other Expenses

### (1) Breakdown of Other Income

(Millions of Yen)		
	Year ended December 31, 2015	Year ended December 31, 2016
Foreign exchange gain	¥923	¥—
Gain on sales of stocks of affiliates	2,593	121
Valuation gains on securities	22,016	3,093
Others	1,459	2,109
<b>Total</b>	<b>26,991</b>	<b>5,323</b>

### (2) Breakdown of Other Expenses

(Millions of Yen)		
	Year ended December 31, 2015	Year ended December 31, 2016
Foreign exchange loss	¥—	¥1,156
Disposal of property, plant and equipment, and intangible assets	1,907	1,175
Office relocation expenses	1,675	78
Others	3,139	3,896
<b>Total</b>	<b>6,721</b>	<b>6,305</b>

## 30. Financial Income and Financial Expenses

### (1) Breakdown of Financial Income

(Millions of Yen)		
	Year ended December 31, 2015	Year ended December 31, 2016
Interest income	¥90	¥128
Dividend income	8	128
Others	10	0
<b>Total</b>	<b>108</b>	<b>256</b>

### (2) Breakdown of Financial Expenses

(Millions of Yen)		
	Year ended December 31, 2015	Year ended December 31, 2016
Interest expense	¥3,607	¥3,163
Commission fee	189	338
<b>Total</b>	<b>3,796</b>	<b>3,501</b>

### 31. Earnings per Share

Basic earnings per share is calculated by dividing the net income attributable to owners of the Company 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 is 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.

The net income attributable and the weighted average number of shares used in the calculation of earnings per share are as follows:

	Year ended December 31, 2015			Year ended December 31, 2016		
	Basic	Adjustments	Diluted	Basic	Adjustments	Diluted
Net income attributable to owners of the Company (Millions of Yen)	¥44,436	¥—	¥44,436	¥37,995	¥(0)	¥37,995
Weighted average number of shares (Thousands of shares)	1,374,536	10,328	1,384,864	1,425,487	11,481	1,436,968
Earnings per share (Yen)	¥32.33	¥(0.24)	¥32.09	¥26.65	¥(0.21)	¥26.44

## 32. Assets Pledged as Collateral and Assets Received as Collateral

### (1) Assets Pledged as Collateral

The Group Companies pledge assets mainly to secure debts from borrowing contracts, e-money deposits, margin trading and security lending transactions conducted under normal terms and conditions, and as monetary deposits in derivative transactions.

The carrying amounts of assets pledged as collateral for liabilities and contingent liabilities by the Group Companies are as follows:

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Cash and cash equivalents	¥4,915	¥140,691
Loans for credit card business (Note)	59,105	90,541
Investment securities	6,823	6,823
Total	70,843	238,055

(Note) Loans for credit card business include securitized receivables.

In addition to the above, investment securities for banking business of ¥131,157 million were pledged as collateral for exchange settlements, derivative trading and other transactions, and for commitment lines as of December 31, 2015. Investment securities for banking business of ¥79,963 million and other financial assets of ¥14,196 million were pledged as collateral for exchange settlements, derivative trading and other transactions, and for commitment lines as of December 31, 2016.

Furthermore, guarantee deposits for margin transactions and future transactions in the securities business in the amount of ¥56,466 million were pledged as of December 31, 2015. Guarantee deposits for margin transactions and future transactions in the securities business in the amount of ¥56,166 million and guarantee deposits for borrowing of share certificates in margin transactions in the securities business in the amount of ¥30,998 million were pledged as of December 31, 2016.

For assets pledged as collateral, the underwriter has no right to sell or to repledge the collateral.

### (2) Assets Received as Collateral

The Group Companies receive securities pledged as collateral in lieu of guarantee deposits and collateral for other transactions, which are conducted under normal terms and conditions. The Group Companies hold the rights to sell or repledge the received assets, provided that the securities are returned at the time the relevant transactions are completed. The fair values of securities received by the Group Companies as collateral to which the Group Companies held the right to sell or repledge the collateral as of December 31, 2015 and 2016 were ¥757,618 million and ¥688,758 million, respectively. Within such collateral, the fair values of the collateral actually sold or pledged as of December 31, 2015 and 2016 were ¥201,136 million and ¥222,833 million, respectively.

### 33. Hedge Accounting

#### (1) Fair Value Hedges

In order to offset the risk of fair value fluctuation on certain fixed rate bonds as a result of fluctuations in interest rates, subsidiaries of the Group Companies have entered into fixed-for-floating interest rate swap contracts with financial institutions as fair value hedges. The fair values of the interest rate swaps as hedging instruments are stated in Note 12. Derivative Assets and Derivative Liabilities.

Gains or losses from remeasuring such interest rate swaps at fair value were a gain of ¥31 million in the year ended December 31, 2015 and a gain of ¥42 million in the year ended December 31, 2016. Additionally, gains or losses on the underlying hedged items due to the hedged risks were a loss of ¥31 million for the year ended December 31, 2015 and a loss of ¥42 million for the year ended December 31, 2016.

#### (2) Cash Flow Hedges

In order to offset the risk of fluctuations on future cash flows from floating rate borrowings, subsidiaries of the Group Companies have entered into fixed-for-floating interest rate swap contracts with financial institutions as cash flow hedges. The purpose of these hedges is to hedge the risk of future fluctuations of cash flows from borrowings by effectively converting floating rate borrowings into fixed rate borrowings. As a result of these hedges, it will become possible to offset the fluctuations of cash flows from floating rate borrowings with the fluctuations of cash flows from the interest rate swaps. Existing hedging relationships are expected to continue to the year ending December 31, 2021.

Additionally, in order to offset the risk of fluctuations of foreign exchange, subsidiaries of the Group Companies have entered into forward exchange contracts with financial institutions as cash flow hedges. The purpose of these hedges is to hedge the risk of future fluctuations of foreign exchange by effectively converting the transaction currency into functional currency-denominated transactions. As a result of these hedges, it will become possible to fix the fluctuations in cash flows from fluctuations in foreign exchange to the foreign exchange rate at a given time. Existing hedging relationships are expected to continue to the year ending December 31, 2017.

The fair values of the interest rate swaps used as the hedging instruments are stated in Note 12. Derivative Assets and Derivative Liabilities.

#### Schedule of changes in the amounts recognized in other comprehensive income

(Millions of Yen)

	Year ended December 31, 2015	Year ended December 31, 2016
January 1	¥(522)	¥(486)
Changes for the period	(325)	(188)
Reclassification to net income	361	286
Reclassification to initial carrying amount of non-financial assets or non-financial liabilities	—	—
December 31	(486)	(388)

(Note) The amounts reclassified to net income are included in "Revenue" in the Consolidated Statements of Income.



### 34. Contingent Liabilities and Commitments

#### (1) Commitment Line Lending Contracts and Guarantee Obligations

Certain consolidated subsidiaries are engaged in consumer lending business through cash advances and credit card loans, which are related to the credit cards. With regard to such loans, of the amount established in a loan contract (the contracted limit), the contract allows customers to take out a loan at any time within the amount of credit approved by these consolidated subsidiaries (the loan limit).

Since some of these contracts expire without the actual loan being drawn, in addition to the Group Companies having discretion to increase or decrease the loan limit, the unused balance of these loans would not necessarily be drawn in its entirety.

Additionally, certain consolidated subsidiaries provide credit guarantees to general customers who have received loans from business partners of other consolidated subsidiaries.

The balances of the unused lending commitment lines and guarantee obligations given in the credit guarantee business stated above are as follows:

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Unused balance of lending commitment lines	¥2,560,942	¥2,792,230
Financial guarantee contracts	12,335	10,362
Total	2,573,277	2,802,592

#### (2) Commitment Line Borrowing Contracts

The Company and certain consolidated subsidiaries have entered into commitment line borrowing contracts with multiple financial institutions and the balances of the unused portions of such commitment lines available are as follows:

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Total commitment line borrowings	¥221,600	¥251,783
Amounts borrowed	1,878	4,104
Unused commitment lines	219,722	247,679

#### (3) Commitments (Contracts)

As of December 31, 2015 and 2016, there were no significant capital expenditures (commitments) for which contracts had been entered into and which were unrecognized in the consolidated financial statements.

### 35. Share-based Payments

Employee expenses relating to stock options recognized by the Group Companies during the years ended December 31, 2015 and 2016 were ¥3,999 million and ¥5,688 million, respectively. The Group Companies have elected to apply the exemption under IFRS 1 for the stock options with the vesting date prior to the date of transition to IFRSs (January 1, 2011), whereas the stock options with the vesting date thereafter are accounted for in accordance with IFRS 2.

The Group Companies have granted equity-settled stock options to its executives and employees, its subsidiaries, and associates. Rakuten Kobo Inc. has granted stock options with a cash alternative option to executives and employees of Rakuten Kobo Inc. and its subsidiaries. Conditions for vesting of the stock options require that those who received stock options continue to be employed by the Company, its subsidiaries or associates from the grant date to the vesting date.

On July 1, 2012, the Company implemented a 100-for-1 share split. The number of stock options issued for each year has been adjusted for the share split. The following is a summary of the Company's stock options.

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
2006 stock option 1)	April 20, 2006	March 30, 2010	¥1,002	—	From March 31, 2010 to March 29, 2016
2006 stock option 2)	December 14, 2006	March 30, 2010	555	—	From March 31, 2010 to March 29, 2016
2008 stock option	January 19, 2009	March 27, 2012	559	575,900	From March 28, 2012 to March 26, 2018
2009 stock option	February 12, 2010	March 27, 2013	701	290,000	From March 28, 2013 to March 26, 2019
2012 stock option 1) A	April 20, 2012	April 19, 2014	0.01	—	From April 20, 2014 to April 20, 2022
2012 stock option 1) B	April 20, 2012	April 19, 2015	0.01	—	From April 20, 2015 to April 20, 2022
2012 stock option 1) C	April 20, 2012	April 19, 2016	0.01	3,500	From April 20, 2016 to April 20, 2022
2012 stock option 2)	July 1, 2012	March 29, 2016	0.01	131,800	From March 30, 2016 to March 28, 2022
2012 stock option 3)	August 1, 2012	March 29, 2016	0.01	44,700	From March 30, 2016 to March 28, 2022
2012 stock option 4)	August 20, 2012	March 29, 2016	0.01	—	From March 30, 2016 to March 28, 2022
2012 stock option 5) A	November 21, 2012	November 20, 2014	0.01	—	From November 21, 2014 to November 21, 2022
2012 stock option 5) B	November 21, 2012	November 20, 2015	0.01	—	From November 21, 2015 to November 21, 2022
2012 stock option 5) C	November 21, 2012	November 20, 2016	0.01	—	From November 21, 2016 to November 21, 2022
2013 stock option 1)	February 1, 2013	March 29, 2016	0.01	607,500	From March 30, 2016 to March 28, 2022
2013 stock option 2)	March 1, 2013	March 29, 2016	0.01	—	From March 30, 2016 to March 28, 2022
2013 stock option 3) A	March 1, 2013	March 29, 2016	0.01	214,200	From March 30, 2016 to March 28, 2022
2013 stock option 3) B	March 1, 2013	March 29, 2016	0.01	18,800	From March 30, 2016 to March 28, 2022
2013 stock option 4)	July 1, 2013	March 28, 2017	0.01	771,100	From March 29, 2017 to March 27, 2023

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
2013 stock option 5)	December 1, 2013	March 28, 2017	0.01	—	From March 29, 2017 to March 27, 2023
2014 stock option 1)	February 1, 2014	March 28, 2017	0.01	621,300	From March 29, 2017 to March 27, 2023
2014 stock option 2)	March 1, 2014	March 28, 2017	0.01	292,500	From March 29, 2017 to March 27, 2023
2014 stock option 3)	March 19, 2014	March 28, 2017	0.01	263,700	From March 29, 2017 to March 27, 2023
2014 stock option 4)	May 1, 2014	March 28, 2018	0.01	160,000	From March 29, 2018 to March 27, 2024
2014 stock option 5)	July 1, 2014	March 28, 2018	0.01	787,700	From March 29, 2018 to March 27, 2024
2014 stock option 6)	September 1, 2014	March 28, 2018	0.01	34,400	From March 29, 2018 to March 27, 2024
2014 stock option 7)	September 1, 2014	March 28, 2018	0.01	413,400	From March 29, 2018 to March 27, 2024
2014 stock option 8)	October 1, 2014	March 28, 2018	0.01	135,500	From March 29, 2018 to March 27, 2024
2014 stock option 9)	October 1, 2014	March 28, 2018	0.01	3,900	From March 29, 2018 to March 27, 2024
2014 stock option 10)	November 1, 2014	March 28, 2018	0.01	606,200	From March 29, 2018 to March 27, 2024
2014 stock option 11)	November 1, 2014	March 28, 2018	0.01	663,800	From March 29, 2018 to March 27, 2024
2014 stock option 12)	November 1, 2014	March 28, 2018	0.01	194,800	From March 29, 2018 to March 27, 2024
2015 stock option 1)	February 1, 2015	March 28, 2018	0.01	715,700	From March 29, 2018 to March 27, 2024
2015 stock option 2)	March 1, 2015	March 28, 2018	0.01	165,600	From March 29, 2018 to March 27, 2024
2015 stock option 3)	March 1, 2015	March 28, 2018	0.01	49,700	From March 29, 2018 to March 27, 2024
2015 stock option 4)	March 1, 2015	March 28, 2018	0.01	447,300	From March 29, 2018 to March 27, 2024
2015 stock option 5) A	June 1, 2015	May 31, 2016	0.01	—	From June 1, 2016 to June 1, 2025
2015 stock option 5) B	June 1, 2015	May 31, 2017	0.01	67,800	From June 1, 2017 to June 1, 2025
2015 stock option 5) C	June 1, 2015	May 31, 2018	0.01	101,200	From June 1, 2018 to June 1, 2025
2015 stock option 5) D	June 1, 2015	May 31, 2019	0.01	118,800	From June 1, 2019 to June 1, 2025
2015 stock option 6) A	July 1, 2015	June 30, 2016	0.01	11,200	From July 1, 2016 to July 1, 2025
2015 stock option 6) B	July 1, 2015	June 30, 2017	0.01	20,200	From July 1, 2017 to July 1, 2025
2015 stock option 6) C	July 1, 2015	June 30, 2018	0.01	30,700	From July 1, 2018 to July 1, 2025
2015 stock option 6) D	July 1, 2015	June 30, 2019	0.01	36,600	From July 1, 2019 to July 1, 2025
2015 stock option 7) A	August 1, 2015	July 31, 2016	0.01	7,300	From August 1, 2016 to August 1, 2025
2015 stock option 7) B	August 1, 2015	July 31, 2017	0.01	167,200	From August 1, 2017 to August 1, 2025
2015 stock option 7) C	August 1, 2015	July 31, 2018	0.01	358,600	From August 1, 2018 to August 1, 2025

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
2015 stock option 7) D	August 1, 2015	July 31, 2019	0.01	725,500	From August 1, 2019 to August 1, 2025
2015 stock option 8)	August 1, 2015	March 27, 2019	0.01	800	From March 28, 2019 to March 26, 2025
2015 stock option 9) A	October 1, 2015	September 30, 2016	0.01	5,300	From October 1, 2016 to October 1, 2025
2015 stock option 9) B	October 1, 2015	September 30, 2017	0.01	7,200	From October 1, 2017 to October 1, 2025
2015 stock option 9) C	October 1, 2015	September 30, 2018	0.01	10,800	From October 1, 2018 to October 1, 2025
2015 stock option 9) D	October 1, 2015	September 30, 2019	0.01	12,600	From October 1, 2019 to October 1, 2025
2015 stock option 10) A	November 1, 2015	October 31, 2016	0.01	21,900	From November 1, 2016 to October 31, 2025
2015 stock option 10) B	November 1, 2015	October 31, 2017	0.01	128,900	From November 1, 2017 to October 31, 2025
2015 stock option 10) C	November 1, 2015	October 31, 2018	0.01	189,800	From November 1, 2018 to October 31, 2025
2015 stock option 10) D	November 1, 2015	October 31, 2019	0.01	238,900	From November 1, 2019 to October 31, 2025
2016 stock option 1) A	February 1, 2016	January 31, 2017	0.01	50,000	From February 1, 2017 to February 1, 2026
2016 stock option 1) B	February 1, 2016	January 31, 2018	0.01	281,400	From February 1, 2018 to February 1, 2026
2016 stock option 1) C	February 1, 2016	January 31, 2019	0.01	466,800	From February 1, 2019 to February 1, 2026
2016 stock option 1) D	February 1, 2016	January 31, 2020	0.01	920,300	From February 1, 2020 to February 1, 2026
2016 stock option 2)	February 1, 2016	March 27, 2019	0.01	1,600	From March 28, 2019 to March 26, 2025
2016 stock option 3) A	March 1, 2016	February 28, 2017	0.01	116,800	From March 1, 2017 to March 1, 2026
2016 stock option 3) B	March 1, 2016	February 28, 2018	0.01	161,300	From March 1, 2018 to March 1, 2026
2016 stock option 3) C	March 1, 2016	February 28, 2019	0.01	242,500	From March 1, 2019 to March 1, 2026
2016 stock option 3) D	March 1, 2016	February 29, 2020	0.01	287,700	From March 1, 2020 to March 1, 2026
2016 stock option 4)	March 1, 2016	March 27, 2019	0.01	12,000	From March 28, 2019 to March 26, 2025
2016 stock option 5) A	May 1, 2016	April 30, 2017	0.01	126,400	From May 1, 2017 to May 1, 2026
2016 stock option 5) B	May 1, 2016	April 30, 2018	0.01	189,200	From May 1, 2018 to May 1, 2026
2016 stock option 5) C	May 1, 2016	April 30, 2019	0.01	278,900	From May 1, 2019 to May 1, 2026
2016 stock option 5) D	May 1, 2016	April 30, 2020	0.01	338,800	From May 1, 2020 to May 1, 2026
2016 stock option 6) A	August 1, 2016	July 31, 2017	0.01	181,800	From August 1, 2017 to July 31, 2026
2016 stock option 6) B	August 1, 2016	July 31, 2018	0.01	481,400	From August 1, 2018 to July 31, 2026
2016 stock option 6) C	August 1, 2016	July 31, 2019	0.01	800,900	From August 1, 2019 to July 31, 2026
2016 stock option 6) D	August 1, 2016	July 31, 2020	0.01	1,314,800	From August 1, 2020 to July 31, 2026

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
2016 stock option 7)	September 1, 2016	March 30, 2020	0.01	1,800	From March 30, 2020 to March 27, 2026
2016 stock option 8) A	November 1, 2016	October 31, 2017	0.01	105,000	From November 1, 2017 to October 31, 2026
2016 stock option 8) B	November 1, 2016	October 31, 2018	0.01	162,900	From November 1, 2018 to October 31, 2026
2016 stock option 8) C	November 1, 2016	October 31, 2019	0.01	244,200	From November 1, 2019 to October 31, 2026
2016 stock option 8) D	November 1, 2016	October 31, 2020	0.01	304,200	From November 1, 2020 to October 31, 2026

(Note) The balance of outstanding options has been converted into the number of shares.

The following is a summary of Rakuten Kobo Inc.'s stock options.

Name	Grant date	Vesting date	Exercise price (Canadian dollars)	Balance of outstanding options (Note)	Exercise period
Rakuten Kobo Inc. 2012 stock option 1) A	January 11, 2012	January 10, 2014	\$1.00	150,000	From January 11, 2014 to January 11, 2018
Rakuten Kobo Inc. 2012 stock option 1) B	January 11, 2012	January 10, 2015	1.00	739,458	From January 11, 2015 to January 11, 2018
Rakuten Kobo Inc. 2012 stock option 1) C	January 11, 2012	January 10, 2016	1.00	739,458	From January 11, 2016 to January 11, 2018
Rakuten Kobo Inc. 2012 stock option 2) A	February 27, 2012	February 26, 2014	1.00	—	From February 27, 2014 to February 27, 2018
Rakuten Kobo Inc. 2012 stock option 2) B	February 27, 2012	February 26, 2015	1.00	158,334	From February 27, 2015 to February 27, 2018
Rakuten Kobo Inc. 2012 stock option 2) C	February 27, 2012	February 26, 2016	1.00	158,333	From February 27, 2016 to February 27, 2018
Rakuten Kobo Inc. 2012 stock option 3) A	April 9, 2012	April 8, 2014	1.00	—	From April 9, 2014 to April 9, 2018
Rakuten Kobo Inc. 2012 stock option 3) B	April 9, 2012	April 8, 2015	1.00	121,666	From April 9, 2015 to April 9, 2018
Rakuten Kobo Inc. 2012 stock option 3) C	April 9, 2012	April 8, 2016	1.00	121,667	From April 9, 2016 to April 9, 2018
Rakuten Kobo Inc. 2012 stock option 4) A	April 23, 2012	April 22, 2014	1.00	—	From April 23, 2014 to April 23, 2018
Rakuten Kobo Inc. 2012 stock option 4) B	April 23, 2012	April 22, 2015	1.00	—	From April 23, 2015 to April 23, 2018
Rakuten Kobo Inc. 2012 stock option 4) C	April 23, 2012	April 22, 2016	1.00	—	From April 23, 2016 to April 23, 2018
Rakuten Kobo Inc. 2012 stock option 5) A	July 9, 2012	July 8, 2014	1.00	—	From July 9, 2014 to July 9, 2018
Rakuten Kobo Inc. 2012 stock option 5) B	July 9, 2012	July 8, 2015	1.00	—	From July 9, 2015 to July 9, 2018

Name	Grant date	Vesting date	Exercise price (Canadian dollars)	Balance of outstanding options (Note)	Exercise period
Rakuten Kobo Inc. 2012 stock option 5) C	July 9, 2012	July 8, 2016	1.00	—	From July 9, 2016 to July 9, 2018
Rakuten Kobo Inc. 2012 stock option 6) A	October 5, 2012	December 30, 2013	1.00	—	From December 31, 2013 to October 5, 2018
Rakuten Kobo Inc. 2012 stock option 6) B	October 5, 2012	December 30, 2014	1.00	—	From December 31, 2014 to October 5, 2018
Rakuten Kobo Inc. 2013 stock option	January 11, 2013	January 11, 2013	0.01	—	From January 11, 2013 to January 11, 2018

(Note) The balance of outstanding options has been converted into the number of shares.

The number of options and the weighted average exercise price related to stock options granted by the Company are as follows:

	Year ended December 31, 2015		Year ended December 31, 2016	
	Number of options (Note)	Weighted average exercise price (Yen)	Number of options (Note)	Weighted average exercise price (Yen)
Balance at the beginning of the year	12,951,600	¥276	14,308,200	¥106
Granted	4,704,200	0.01	7,637,100	0.01
Forfeited	1,183,600	229	1,892,300	15
Exercised	2,164,000	818	2,048,700	254
Expired	—	—	459,300	953
Outstanding balance at the end of the year	14,308,200	106	17,545,000	30
Exercisable amount at the end of the year	1,981,600	763	1,932,100	272
Weighted average remaining contract years		7.13 years		7.83 years

(Note) The number of options has been converted into the number of shares.

The number of options and the weighted average exercise price related to stock options granted by Rakuten Kobo Inc. are as follows:

	Year ended December 31, 2015		Year ended December 31, 2016	
	Number of options (Note)	Weighted average exercise price (Canadian dollars)	Number of options (Note)	Weighted average exercise price (Canadian dollars)
Balance at the beginning of the year	2,988,916	\$1.00	2,188,916	\$1.00
Granted	—	—	—	—
Forfeited	—	—	—	—
Exercised	800,000	1.00	—	—
Expired	—	—	—	—
Outstanding balance at the end of the year	2,188,916	1.00	2,188,916	1.00
Exercisable amount at end of the year	1,169,458	1.00	2,188,916	1.00
Weighted average remaining contract years		2.12 years		1.12 years

(Note) The number of options has been converted into the number of shares.

The weighted average stock prices of the Company as of the exercise date were ¥1,922 and ¥1,204 for the years ended December 31, 2015 and 2016, respectively.

The expiration dates and the exercise prices of the outstanding options related to stock options granted by the Company are as follows:

	December 31, 2015		December 31, 2016	
	Exercise price (Yen)	Number of options (Note)	Exercise price (Yen)	Number of options (Note)
2016	¥555-1,002	930,000	¥—	—
2018	559	691,300	559	575,900
2019	701	353,600	701	290,000
2022	0.01	2,313,300	0.01	1,020,500
2023	0.01	2,169,600	0.01	1,948,600
2024	0.01	5,018,000	0.01	4,378,000
2025	0.01	2,832,400	0.01	2,274,900
2026	—	—	0.01	7,057,100
Balance at end of the period	—	14,308,200	—	17,545,000

(Note) The number of options has been converted into the number of shares.

The expiration dates and the exercise prices of the outstanding options related to stock options granted by Rakuten Kobo Inc. are as follows:



	December 31, 2015		December 31, 2016	
	Exercise price (Canadian dollars)	Number of options (Note)	Exercise price (Canadian dollars)	Number of options (Note)
2018	\$1.00	2,188,916	\$1.00	2,188,916
Balance at end of the period	—	2,188,916	—	2,188,916

(Note) The number of options has been converted into the number of shares.

The Company granted equity-settled stock options to executives and employees of the company, its subsidiaries, and associates during the year ended December 31, 2016. The fair value of the options granted has been calculated using the Black-Scholes model adjusted for dividends. The fair value and assumptions used in the calculation are as follows.

Expected volatility of the Company has been calculated as an annual rate based on the historical period of stock prices corresponding to the expected remaining period and weekly data (weekly closing price versus volatility of the previous week), assuming 52 weeks in a year.

	December 31, 2016		
	The Company 2016 stock option 1)	The Company 2016 stock option 1)	The Company 2016 stock option 1)
	A	B	C
Weighted average stock prices (Yen)	¥1,295	¥1,295	¥1,295
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	34.10	35.43	39.62
Remaining term (Years)	1.01	2.01	3.01
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.16)	(0.16)	(0.14)
Fair value per share (Yen)	¥1,290	¥1,286	¥1,282

	December 31, 2016		
	The Company 2016 stock option 1)	The Company 2016 stock option 2)	The Company 2016 stock option 3)
	D	A	A
Weighted average stock prices (Yen)	¥1,295	¥1,295	¥1,074
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	37.08	39.51	36.96
Remaining term (Years)	4.01	3.16	1.00
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.13)	(0.14)	(0.21)
Fair value per share (Yen)	¥1,277	¥1,281	¥1,069

	December 31, 2016		
	The Company 2016 stock option 3)	The Company 2016 stock option 3)	The Company 2016 stock option 3)
	B	C	D
Weighted average stock prices (Yen)	¥1,074	¥1,074	¥1,074
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	36.46	41.06	38.13
Remaining term (Years)	2.00	3.00	4.01
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.22)	(0.23)	(0.22)
Fair value per share (Yen)	¥1,065	¥1,060	¥1,056

	December 31, 2016		
	The Company 2016 stock option 4)	The Company 2016 stock option 5)	The Company 2016 stock option 5)
		A	B
Weighted average stock prices (Yen)	¥1,074	¥1,221	¥1,221
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	40.78	38.74	37.34
Remaining term (Years)	3.08	1.00	2.00
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.23)	(0.27)	(0.24)
Fair value per share (Yen)	¥1,060	¥1,216	¥1,212

	December 31, 2016		
	The Company 2016 stock option 5)	The Company 2016 stock option 5)	The Company 2016 stock option 6)
	C	D	A
Weighted average stock prices (Yen)	¥1,221	¥1,221	¥1,189
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	41.75	39.19	41.55
Remaining term (Years)	3.00	4.01	1.00
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.23)	(0.21)	(0.26)
Fair value per share (Yen)	¥1,207	¥1,203	¥1,184

	December 31, 2016		
	The Company 2016 stock option 6)	The Company 2016 stock option 6)	The Company 2016 stock option 6)
	B	C	D
Weighted average stock prices (Yen)	¥1,189	¥1,189	¥1,189
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	37.98	40.00	39.69
Remaining term (Years)	2.00	3.00	4.01
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.24)	(0.23)	(0.23)
Fair value per share (Yen)	¥1,180	¥1,176	¥1,171

	December 31, 2016		
	The Company 2016 stock option 7)	The Company 2016 stock option 8)	The Company 2016 stock option 8)
		A	B
Weighted average stock prices (Yen)	¥1,333	¥1,219	¥1,219
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	40.60	40.66	37.23
Remaining term (Years)	3.58	1.00	2.00
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.17)	(0.30)	(0.25)
Fair value per share (Yen)	¥1,316	¥1,214	¥1,210

	December 31, 2016	
	The Company 2016 stock option 8)	The Company 2016 stock option 8)
	C	D
Weighted average stock prices (Yen)	¥1,219	¥1,219
Exercise price (Yen)	¥0.01	¥0.01
Expected volatility (%)	37.21	39.94
Remaining term (Years)	3.00	4.01
Expected dividend (Yen)	¥4.50	¥4.50
Risk-free rate (%)	(0.22)	(0.20)
Fair value per share (Yen)	¥1,206	¥1,201

### 36. Dividends

	Year ended December 31, 2015		Year ended December 31, 2016	
	Dividends per share (Yen)	Amount of dividends (Millions of Yen)	Dividends per share (Yen)	Amount of dividends (Millions of Yen)
Dividends paid				
Dividends by resolution at the Board of Directors in the previous year	¥4.5	¥5,952	¥4.5	¥6,410
Dividends paid during the current year	—	—	—	—
Total dividends paid applicable to the year	4.5	5,952	4.5	6,410

As for the policy for shareholder return, the Company has been increasing or maintaining our dividend per share at a constant level, while taking into account the importance of making investments with a view to the 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 promptly and accurately
- Ensure sufficiency in comparison with risks associated with business activities and assets
- Maintain the level of financial rating required for conducting financial business, while sustaining the level of shareholders equity in compliance with regulatory requirements

(Note) Cash dividends paid with record date during the year ended December 31, 2016 are as follows:

Date of resolution	Total dividends (Millions of Yen)	Dividends per share (Yen)
Resolution at the Board of Directors on February 13, 2017	¥6,419	¥4.5

### 37. Classification of Financial Instruments

The Group Companies' financial instruments are classified as follows:

As of December 31, 2015

(Financial Assets)

	(Millions of Yen)			
	Financial assets measured at fair value		Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI		
Cash and cash equivalents	¥—	¥—	¥501,029	¥501,029
Accounts receivable — trade	—	—	104,011	104,011
Financial assets for securities business	1,364	—	1,107,935	1,109,299
Loans for credit card business	—	—	833,820	833,820
Investment securities for banking business	5,230	1	252,538	257,769
Loans for banking business	—	—	444,044	444,044
Investment securities for insurance business	—	—	15,308	15,308
Derivative assets	21,312	—	—	21,312
Investment securities	82,206	58,904	10,127	151,237
Other financial assets	1	—	161,639	161,640
<b>Total</b>	<b>110,113</b>	<b>58,905</b>	<b>3,430,451</b>	<b>3,599,469</b>

(Financial Liabilities)

	(Millions of Yen)			
	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at FVTPL		
Accounts payable — trade	¥—	¥—	¥162,606	¥162,606
Deposits for banking business	—	48,755	1,318,029	1,366,784
Financial liabilities for securities business	—	—	987,244	987,244
Derivative liabilities	10,623	—	—	10,623
Bonds and borrowings	—	—	649,195	649,195
Other financial liabilities	—	—	268,448	268,448
<b>Total</b>	<b>10,623</b>	<b>48,755</b>	<b>3,385,522</b>	<b>3,444,900</b>

As of December 31, 2016  
(Financial Assets)

(Millions of Yen)

	Financial assets measured at fair value		Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI		
Cash and cash equivalents	¥—	¥—	¥548,269	¥548,269
Accounts receivable — trade	—	—	117,088	117,088
Financial assets for securities business	1,048	—	1,119,636	1,120,684
Loans for credit card business	—	—	1,014,708	1,014,708
Investment securities for banking business	4,422	1	152,892	157,315
Loans for banking business	—	—	585,800	585,800
Investment securities for insurance business	—	—	18,071	18,071
Derivative assets	21,813	—	—	21,813
Investment securities	106,527	55,926	10,623	173,076
Other financial assets	1	—	137,677	137,678
Total	133,811	55,927	3,704,764	3,894,502

(Financial Liabilities)

(Millions of Yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at FVTPL		
Accounts payable — trade	¥—	¥—	¥181,279	¥181,279
Deposits for banking business	—	28,088	1,477,858	1,505,946
Financial liabilities for securities business	—	—	1,059,639	1,059,639
Derivative liabilities	6,598	—	—	6,598
Bonds and borrowings	—	—	711,104	711,104
Other financial liabilities	—	—	297,489	297,489
Total	6,598	28,088	3,727,369	3,762,055

(1) Investments in Equity Instruments Designated as Measured at FVTOCI

Of the shares held by the Group Companies, those held over the long term for the purpose of strengthening business relationships or in anticipation of synergistic effects in business operations are designated as financial assets measured at FVTOCI.

Equity instruments designated as measured at FVTOCI as of December 31, 2015 mainly comprise shares in Pinterest, Inc., with a fair value of ¥46,200 million. Equity instruments designated as measured at FVTOCI as of December 31, 2016 mainly comprise shares in Pinterest, Inc., with a fair value of ¥44,622 million.

During the year ended December 31, 2015, shares of investments from which synergistic effects could no longer be anticipated were sold. The fair value of such investments at the time of sale was ¥1,076 million, and a gain on sales of ¥828 million was recognized. Similarly, during the year ended December 31, 2016, shares of investments from which synergistic effects could no longer be anticipated were sold. The fair value of such investments at the time of sales was ¥6,626 million, and a gain on sales of ¥5,336 million was recognized.

Additionally, during the year ended December 31, 2015, dividend income recognized from shares designated as financial assets measured at FVTOCI was ¥102 million, all of which was for dividends relating to shares held as of December 31, 2015. Furthermore, during the year ended December 31, 2016, dividend income recognized from shares designated as financial assets measured at FVTOCI was ¥203 million, of which, the amount relating to shares held as of December 31, 2016 was ¥202 million.

During the year ended December 31, 2015, the Group Companies reclassified ¥540 million of cumulative gains in equity, related to shares designated as financial assets measured at FVTOCI, to retained earnings on the sale of such shares, etc. During the year ended December 31, 2016, the Group Companies reclassified ¥3,627 million of cumulative gains in equity, related to shares designated as financial assets measured at FVTOCI, to retained earnings on the sale of such shares, etc.

(2) Financial Liabilities Designated as Measured at FVTPL

The Group Companies classify certain time deposits with special clauses included in “Deposits for banking business” as financial liabilities measured at FVTPL.

Fair values of such deposits of the Group Companies are measured at present value calculated by discounting each portion of future cash flows, classified by period, for the corresponding remaining maturity using the applicable interest rate considering credit risk.

(Millions of Yen)

	December 31, 2015			December 31, 2016		
	Carrying amount (Fair value)	Contractual obligations at maturity	Difference	Carrying amount (Fair value)	Contractual obligations at maturity	Difference
Deposits for banking business	¥48,755	¥47,424	¥1,331	¥28,088	¥27,267	¥821
Total	48,755	47,424	1,331	28,088	27,267	821

The amount of payment demanded at maturity has been calculated assuming that the liabilities will be repaid on the earliest maturity date on which the repayment can be demanded.

### 38. Gains and Losses on Financial Instruments

The analysis of the gains and losses on financial instruments held by the Group Companies is as follows:

For the year ended December 31, 2015

#### (1) Breakdown of Net Gains and Losses on Financial Assets by Type of Financial Instruments

(Millions of Yen)

	Financial assets measured at fair value		Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI		
Revenue	¥7,046	¥94	¥105	¥7,245
Operating expenses	—	13	21,974	21,987
Other income	22,016	—	—	22,016
Financial income	10	8	—	18
Financial expenses	0	—	—	0
Other comprehensive income	93	22,603	—	22,696

Net gains on financial assets measured at fair value include interest income, dividend income and commissions received relating to such assets.



(2) Breakdown of Net Gains and Losses on Financial Liabilities by Type of Financial Instruments  
(Millions of Yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at fair value		
Revenue	¥—	¥891	¥—	¥891
Operating expenses	—	361	—	361

(3) Total Interest Income and Interest Expenses (Calculated Using the Effective Interest Method) Associated With Financial Assets Measured at Amortized Cost or Financial Liabilities Measured at Amortized Cost

	(Millions of Yen)	
	Total interest income associated with financial assets measured at amortized cost	Total interest expenses associated with financial liabilities measured at amortized cost
Revenue	¥102,494	¥—
Operating expenses	—	5,883
Financial income	90	—
Financial expenses	—	3,607
Total	102,584	9,490

(4) Commission Revenue and Commission Fee Expenses from Financial Assets Measured at Amortized Cost, Financial Liabilities Measured at Amortized Cost, and Trust and Other Trustee Operations

	(Millions of Yen)				
	Commission revenue from financial assets measured at amortized cost	Commission fee expenses from financial assets measured at amortized cost	Commission fee expenses from financial liabilities measured at amortized cost	Commission revenue from trust and other trustee operations	Commission fee expenses from trust and other trustee operations
Financial expenses	¥—	¥—	¥189	¥—	¥—

(5) Impairment Loss (or Reversal of Impairment Loss) by Type of Financial Asset  
(Millions of Yen)

	Impairment loss (or reversal of impairment loss)
Accounts receivable — trade (Note)	¥693
Financial assets for securities business	242
Loans for credit card business (Note)	20,652
Investment securities for banking business	(17)
Loans for banking business	321
Other financial assets	83
Total	21,974

(Note) The amount of impairment loss recognized for the receivables arising from contracts with customers (Note 27 Revenue) was accounts receivable — trade of ¥693 million and loans for credit card business of ¥7,229 million.

(6) Analysis of Gains and Losses on Derecognition of Financial Assets Measured at Amortized Cost and Reason for Derecognition

	(Millions of Yen)	
	Gains on derecognition of financial assets measured at amortized cost	Losses on derecognition of financial assets measured at amortized cost
Investment securities for insurance business	¥136	¥—

Reason for Derecognition

Rakuten Life Insurance Co., Ltd. derecognized certain investment securities for the insurance business due to the sale of such assets to adjust its investment portfolios to reflect the modified forecast duration.

For the year ended December 31, 2016

(1) Breakdown of Net Gains and Losses on Financial Assets by Type of Financial Instruments

(Millions of Yen)

	Financial assets measured at fair value		Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI		
Revenue	¥10,437	¥75	¥1,213	¥11,725
Operating expenses	—	—	26,578	26,578
Other income	3,093	—	—	3,093
Financial income	0	128	—	128
Financial expenses	—	—	—	—
Other comprehensive income	118	1,238	—	1,356

Net gains on financial assets measured at fair value include interest income, dividend income and commissions received relating to such assets.

(2) Breakdown of Net Gains and Losses on Financial Liabilities by Type of Financial Instruments

(Millions of Yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at fair value		
Revenue	¥—	¥509	¥—	¥509
Operating expenses	—	240	—	240

(3) Total Interest Income and Interest Expenses (Calculated Using the Effective Interest Method) Associated With Financial Assets Measured at Amortized Cost or Financial Liabilities Measured at Amortized Cost

(Millions of Yen)

	Total interest income associated with financial assets measured at amortized cost	Total interest expenses associated with financial liabilities measured at amortized cost
Revenue	¥118,755	¥—
Operating expenses	—	5,264
Financial income	128	—
Financial expenses	—	3,163
Total	118,883	8,427

(4) Commission Revenue and Commission Expense from Financial Assets Measured at Amortized Cost, Financial Liabilities Measured at Amortized Cost, and Trust and Other Trustee Operations  
(Millions of Yen)

	Commission revenue from financial assets measured at amortized cost	Commission fee expenses from financial assets measured at amortized cost	Commission fee expenses from financial liabilities measured at amortized cost	Commission revenue from trust and other trustee operations	Commission fee expenses from trust and other trustee operations
Financial expenses	¥—	¥—	¥338	¥—	¥—

(5) Impairment Loss (or Reversal of Impairment Loss) by Type of Financial Asset  
(Millions of Yen)

	Impairment loss (or reversal of impairment loss)
Accounts receivable — trade (Note)	¥1,008
Financial assets for securities business	267
Loans for credit card business (Note)	25,004
Investment securities for banking business	(25)
Loans for banking business	399
Other financial assets	(75)
Total	26,578

(Note) The amount of impairment loss recognized for the receivables arising from contracts with customers (Note 27 Revenue) was accounts receivable — trade of ¥1,008 million and loans for credit card business of ¥9,970 million.

(6) Analysis of Gains and Losses on Derecognition of Financial Assets Measured at Amortized Cost and Reason for Derecognition

	(Millions of Yen)	
	Gains on derecognition of financial assets measured at amortized cost	Losses on derecognition of financial assets measured at amortized cost
Investment securities for banking business	¥32	¥—
Investment securities for insurance business	1,222	—

Reason for Derecognition

Rakuten Bank, Ltd. derecognized certain investment securities for the banking business due to the sale of bonds that had been pledged as collateral for domestic exchange settlements for the purpose of replacing such assets.

Rakuten Life Insurance Co., Ltd. derecognized certain investment securities for the insurance business due to the sale of such assets to adjust its investment portfolios to reflect the modified forecast duration.

### 39. Fair Value of Financial Instruments

#### (1) Fair Value and Carrying Amount of Financial Instruments

The following table provides a comparison between carrying amounts and fair values of the financial instruments held by the Group Companies.

(Millions of Yen)

	December 31, 2015		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>(Financial assets)</b>				
Financial assets for securities business	¥1,109,299	¥1,109,299	¥1,120,684	¥1,120,684
Loans for credit card business	833,820	841,976	1,014,708	1,026,326
Investment securities for banking business	257,769	257,928	157,315	157,353
Loans for banking business	444,044	445,901	585,800	588,434
Investment securities for insurance business	15,308	15,976	18,071	18,743
Derivative assets	21,312	21,312	21,813	21,813
Investment securities	151,237	151,487	173,076	173,326
<b>Total</b>	<b>2,832,789</b>	<b>2,843,879</b>	<b>3,091,467</b>	<b>3,106,679</b>
<b>(Financial liabilities)</b>				
Deposits for banking business	1,366,784	1,367,341	1,505,946	1,506,477
Financial liabilities for securities business	987,244	987,244	1,059,639	1,059,639
Derivative liabilities	10,623	10,623	6,598	6,598
Bonds and borrowings	649,195	652,511	711,104	723,545
<b>Total</b>	<b>3,013,846</b>	<b>3,017,719</b>	<b>3,283,287</b>	<b>3,296,259</b>

#### Measurement of Fair Values

- Financial assets for securities business

As financial assets for securities business are subject to short-term settlement, their fair values approximate their carrying amounts, and thus the fair values are measured at their carrying amounts.

- Loans for credit card business and loans for banking business

The fair value of loans for credit card business and loans for banking business is measured at present value calculated by discounting each portion of future cash flows classified by period, for the corresponding remaining maturity using the applicable interest rate considering credit risk.

- Investment securities for banking business, investment securities for insurance business and investment securities

Of these investment securities, fair value of listed shares is measured at the year-end closing market price, while fair value of unlisted shares is measured by using an appropriate valuation technique, such as a method of comparison with similar sectors. The fair value of bonds is measured by reasonable valuation methods based on available information, including reference trading statistics and brokers' quotes.

- Derivative assets and liabilities

Within derivative assets and liabilities, forward exchange contracts are measured at fair value at the end of year based on forward exchange rates. Fair value of interest rate swaps is

measured at the present value calculated by discounting future cash flows for the remaining maturity using the rate of the interest rate swap at the end of year. Since counterparties of interest rate swap contracts are limited to financial institutions with superior credit ratings, consideration of credit risk is not incorporated in the calculation of fair value as it is minimal.

- Deposits for banking business

For demand deposits of the deposits for banking business, amounts payable on request at the year-end closing date (carrying amount) are considered to represent fair value. Fair value of time deposits is measured at the present value calculated by discounting each portion of future cash flows classified by period, for the corresponding remaining maturity, using the applicable interest rate considering credit risk. For time deposits with short remaining maturities (one year or less), the carrying amount is deemed as fair value as such fair value approximates the carrying amount.

- Financial liabilities for securities business

As financial liabilities for securities business are subject to short-term settlement, their fair values approximate their carrying amounts, and thus the fair values are measured at their carrying amounts.

- Bonds and borrowings

Among bonds and borrowings, fair value of those with longer remaining maturities is measured at the present value calculated by discounting each portion of future cash flows classified by period, for the corresponding remaining maturity, using the applicable interest rate considering credit risk.

As other financial assets and liabilities are subject to short-term settlement, their fair values approximate their carrying amounts.

## (2) Fair Value Hierarchy

The following table shows the fair value measurement classified into one of three levels from Level 1 to Level 3 based on *the fair value hierarchy*.

### [Definition of Each Level of Hierarchy]

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Fair value calculated by using inputs that are directly or indirectly observable for assets or liabilities, other than quoted prices included within Level 1

Level 3: Fair value calculated by using the valuation technique including inputs that are unobservable

The Group Companies recognize transfers between each level in hierarchy at the end of the quarter in which the events causing the transfers occur.

Classification by level of assets and liabilities measured at fair value in the Consolidated Statements of Financial Position

For the year ended December 31, 2015

	(Millions of Yen)			
	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥1,364	¥—	¥1,364
Investment securities for banking business	—	—	5,231	5,231
Investment securities	9,403	—	131,707	141,110
Deposits for banking business	—	48,755	—	48,755
Derivative assets/liabilities	—	10,689	—	10,689

There were no significant transfers between Level 1 and Level 2 during the year ended December 31, 2015.

For the year ended December 31, 2016

	(Millions of Yen)			
	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥1,048	¥—	¥1,048
Investment securities for banking business	—	—	4,423	4,423
Investment securities	8,519	—	153,934	162,453
Deposits for banking business	—	28,088	—	28,088
Derivative assets/liabilities	—	15,215	—	15,215

There were no significant transfers between Level 1 and Level 2 during the year ended December 31, 2016.

Classification by level of assets and liabilities not measured at fair value in the consolidated statements of financial position

For the year ended December 31, 2015

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥1,107,833	¥102	¥1,107,935
Loans for credit card business	—	—	841,976	841,976
Investment securities for banking business	138,198	—	114,499	252,697
Loans for banking business	—	—	445,901	445,901
Investment securities for insurance business	13,875	—	2,101	15,976
Investment securities	7,073	1,000	2,304	10,377
Deposits for banking business	—	1,318,586	—	1,318,586
Financial liabilities for securities business	—	987,244	—	987,244
Bonds and borrowings	—	652,511	—	652,511

For the year ended December 31, 2016

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥1,119,536	¥100	¥1,119,636
Loans for credit card business	—	—	1,026,326	1,026,326
Investment securities for banking business	82,603	—	70,327	152,930
Loans for banking business	—	—	588,434	588,434
Investment securities for insurance business	15,543	—	3,200	18,743
Investment securities	6,570	1,000	3,303	10,873
Deposits for banking business	—	1,478,389	—	1,478,389
Financial liabilities for securities business	—	1,059,639	—	1,059,639
Bonds and borrowings	—	723,545	—	723,545



(3) Reconciliation of Level 3 of the Hierarchy

The following reconciliation table indicates changes in the balances, from the beginning to the end of each year, of the financial instruments classified as Level 3, with one or more significant inputs not supported by observable market data.

For the year ended December 31, 2015

(Millions of Yen)

	Investment securities for banking business	Investment securities	Total
January 1, 2015	¥17,889	¥33,407	¥51,296
Gains or losses			
Net income	(155)	22,014	21,859
Other comprehensive income	0	19,398	19,398
Acquisition	—	64,666	64,666
Disposal	—	(992)	(992)
Issuance	—	—	—
Settlement	—	—	—
Redemption	(12,503)	(0)	(12,503)
Others	—	(6,029)	(6,029)
Transfer to Level 3	—	—	—
Transfer from Level 3 (Note)	—	(757)	(757)
December 31, 2015	5,231	131,707	136,938
Total net income on financial instruments held at the end of previous fiscal year	(208)	21,237	21,029

(Note) Transfers were due to significant inputs used to measure fair value becoming observable.

Gains or losses included in net income during the year ended December 31, 2015 are included in “Revenue” and “Other Income”.

For the year ended December 31, 2016

(Millions of Yen)

	Investment securities for banking business	Investment securities	Total
January 1, 2016	¥5,231	¥131,707	¥136,938
Gains or losses			
Net income	(286)	1,285	999
Other comprehensive income	(0)	(772)	(772)
Acquisition	—	41,985	41,985
Disposal	—	(464)	(464)
Issuance	—	—	—
Settlement	—	—	—
Redemption	(522)	—	(522)
Others	—	(19,807)	(19,807)
Transfer to Level 3	—	—	—
Transfer from Level 3	—	—	—
December 31, 2016	4,423	153,934	158,357
Total net income on financial instruments held at the end of current fiscal year	(283)	289	6

Gains or losses included in net income during the year ended December 31, 2016 are included in “Revenue” and “Other Income”.

The fair values of unlisted shares are measured in accordance with rules specified by the administrative department independent of the sales department. In measuring fair value, the Group Companies employ different valuation models that can most appropriately assess the property, characteristics and risks of each asset. The grounds for the employment of valuation models and fair value measurement processes are reported to sections in charge of risk management with the aim of ensuring the utilization of appropriate fair value measurement policies and procedures.

The fair values of investment securities for banking business are measured by the Risk Management Department in accordance with the official standard of market value calculation. Prices presented by transacting financial institutions and others are categorized by types of investment securities. To validate the consistency of changes in these prices, movements in important data that may affect a change in the market value of these categories of investment securities are carefully monitored. Validation results are reported to the Risk Management Committee, Management Meetings and the Board of Directors on a monthly basis.

For investment securities for banking business classified as Level 3, if each input were to be changed to reasonable alternative assumptions, any resulting changes in fair value are not expected to be significant. Additionally, for other financial assets classified as Level 3, significant changes in fair value are not anticipated if each input were to be changed to reasonable alternative assumptions.

#### 40. Offsetting of Financial Assets and Financial Liabilities

The Group Companies' gross amount prior to offsetting of recognized financial assets and financial liabilities that are presented on net basis after offsetting in the consolidated statements of financial position, the offsetting amount and the net balance after offsetting are as follows. Additionally, the potential effect of offsetting legally enforceable master netting arrangements or similar agreements relating to recognized financial assets or financial liabilities are disclosed for amounts that are not presented on a net basis after offsetting.

As of December 31, 2015

(Financial assets that are presented on a net basis after offsetting in the consolidated statement of financial position, and legally enforceable master netting arrangements or similar agreements)

(Millions of Yen)				
Financial assets	Type of transaction	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offset in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position
Derivative assets	Derivatives	¥20,999	¥(2,335)	¥18,664
Financial assets for securities business	Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	327,331	—	327,331
	Accounts receivable, etc. relating to investment securities and other transactions, etc.	417,205	(190,715)	226,490
Other financial assets	Accounts receivable — other, etc.	33,885	(29,704)	4,181

(Millions of Yen)

Type of transaction	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts that are not presented on a net basis after offsetting in the consolidated statement of financial position		Net amount
		Financial instruments	Collateral received	
Derivatives	¥18,664	¥(8,571)	¥(8,922)	¥1,171
Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	327,331	(327,331)	—	0
Accounts receivable, etc. relating to investment securities and other transactions, etc.	226,490	(196,596)	—	29,894
Accounts receivable — other, etc.	4,181	—	—	4,181

(Financial liabilities that are presented on a net basis after offsetting in the consolidated statement of financial position, and legally enforceable master netting arrangements or similar agreements)

(Millions of Yen)

Financial liabilities	Type of transaction	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offset in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position
Derivative liabilities	Derivatives	¥11,825	¥(2,335)	¥9,490
Financial liabilities for securities business	Repurchase agreements, investment securities lending agreements and similar agreements	185,606	—	185,606
	Accounts payable, etc. relating to investment securities and other transactions, etc.	719,938	(190,715)	529,223
Other financial liabilities	Accounts payable — other, etc.	44,885	(29,704)	15,181

(Millions of Yen)

Type of transaction	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts that are not presented on a net basis after offsetting in the consolidated statement of financial position		Net amount
		Financial instruments	Collateral pledged	
Derivatives	¥9,490	¥(8,663)	¥(827)	¥—
Repurchase agreements, investment securities lending agreements and similar agreements	185,606	(182,210)	—	3,396
Accounts payable, etc. relating to investment securities and other transactions, etc.	529,223	(295,098)	—	234,125
Accounts payable — other, etc.	15,181	—	—	15,181

As of December 31, 2016

(Financial assets that are presented on a net basis after offsetting in the consolidated statement of financial position, and legally enforceable master netting arrangements or similar agreements)

(Millions of Yen)

Financial assets	Type of transaction	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offset in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position
Derivative assets	Derivatives	¥22,743	¥(2,163)	¥20,580
Financial assets for securities business	Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	265,899	—	265,899
	Accounts receivable, etc. relating to investment securities and other transactions, etc.	477,215	(225,857)	251,358
Other financial assets	Accounts receivable — other, etc.	39,242	(33,292)	5,950

(Millions of Yen)

Type of transaction	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts that are not presented on a net basis after offsetting in the consolidated statement of financial position		Net amount
		Financial instruments	Collateral received	
Derivatives	¥20,580	¥(5,680)	¥(11,652)	¥3,248
Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	265,899	(265,297)	—	602
Accounts receivable, etc. relating to investment securities and other transactions, etc.	251,358	(244,935)	—	6,423
Accounts receivable — other, etc.	5,950	—	—	5,950

(Financial liabilities that are presented on a net basis after offsetting in the consolidated statement of financial position, and legally enforceable master netting arrangements or similar agreements)

(Millions of Yen)

Financial liabilities	Type of transaction	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offset in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position
Derivative liabilities	Derivatives	¥7,914	¥(2,163)	¥5,751
Financial liabilities for securities business	Repurchase agreements, investment securities lending agreements and similar agreements	203,152	—	203,152
	Accounts payable, etc. relating to investment securities and other transactions, etc.	832,999	(225,857)	607,142
Other financial liabilities	Accounts payable — other, etc.	44,934	(33,292)	11,642

(Millions of Yen)				
Type of transaction	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts that are not presented on a net basis after offsetting in the consolidated statement of financial position		Net amount
		Financial instruments	Collateral pledged	
Derivatives	¥5,751	¥(5,680)	¥(71)	¥—
Repurchase agreements, investment securities lending agreements and similar agreements	203,152	(198,228)	—	4,924
Accounts payable, etc. relating to investment securities and other transactions, etc.	607,142	(329,078)	—	278,064
Accounts payable — other, etc.	11,642	—	—	11,642

The right to offset recognized financial assets and liabilities subject to a legally enforceable master netting agreement or other similar agreements that are not presented on a net basis after offsetting in the statement of financial position becomes enforceable and affects the realization or settlement of individual financial assets and liabilities only following a default or other specified circumstances not expected to arise in the normal course of business.

#### 41. Financial Risk Management

The objective of Group Companies' investment activities is to protect the principal and ensure the efficient use of funds by fully taking into account various risks including credit risk, market risk and liquidity risk. In addition, in view of factors such as the current economic environment, the Group Companies' fund-raising activities are based on the best conceivable choice of the alternative options among direct as well as indirect financing methods.

The Group Companies' subsidiaries engaged in the securities business primarily focus on the brokerage and intermediary of financial instruments including stocks for individual customers, and under the Financial Instruments and Exchange Act invest the deposits and guarantee deposits received from customers that have been segregated in trusts for customers for separate management. When utilizing funds, importance is placed on the safety of investments, such as bank deposits and financial assets with high liquidity, while fund-raising is conducted mainly by borrowing from financial institutions.

The Group Companies' subsidiaries engaged in the credit card business (including the comprehensive credit purchase intermediation business, individual credit purchase intermediation business, credit guarantee business and loan business) restrict their investment of funds to short-term deposits, while obtaining funding through borrowings from banks and other financial institutions and through direct financing by issuance of commercial papers, issuance of corporate bonds and securitization of receivables.

The Group Companies' subsidiaries engage in the banking business with a primary focus on deposit-taking, lending and exchange business, and they offer ordinary deposits, time deposits and foreign currency deposits to individual customers as well as corporate customers. In addition, using such financial liabilities as major resources, the subsidiaries provide guaranteed unsecured card loans and residential mortgages to individual customers, as well as acquiring investment securities and monetary claims purchased, establishing monetary trusts, engaging in market transactions such

as call loans, along with derivative transactions and foreign exchange transactions associated with the sales of financial instruments to customers. The subsidiaries are always aware of the significance of a bank's social responsibility and public mission, which strictly restrains it from entering into investment transactions beyond its management capacity in the undue pursuit of profit, and emphasis is placed on investing deposits entrusted by customers with full consideration of safety. Furthermore, to ensure an optimum asset and liability structure along with appropriate capital adequacy over the entire financial operations from funding to investment, the subsidiaries engage in Asset and Liability Management (ALM) focused on interest rate sensitivity, funding liquidity and market liquidity.

The Group Companies' subsidiaries engaged in the insurance business consider ensuring safety and profitability as their priority mission in asset management, in order to honor their commitment to the reliable payment of insurance claims and benefits over the years to come. Their policy in asset management is to invest mainly in domestic public and corporate bonds seeking to disperse risks with an aim to receive consistent investment yields over the medium- to long-term, in an effort to develop a safety-first liquidity- and profitability-oriented sound investment portfolio.

Under the corporate policy, derivative transactions are handled responsibly, never to be treated as speculative instruments.

## (1) Credit Risk

### 1) Outline of Credit Risk Associated with Financial Instruments

Financial assets held by the Group Companies are mainly securities business-related assets held by the subsidiaries engaged in the securities business, accounts receivable — installment, operating loans, banking business-related assets held by the subsidiaries engaged in the banking business, insurance business-related assets held by the subsidiaries engaged in the insurance business and investment securities.

Securities business-related assets include cash segregated as deposits for securities business and margin transaction assets, which are presented as financial assets for securities business. Cash segregated as deposits for securities business are primarily trust segregated for customer's money, which are invested in bank deposits, thus exposed to the credit risk of the deposit-taking financial institutions. Margin transaction assets are exposed to customers' credit risk.

Accounts receivable — installment and operating loans include credit card receivables, loan receivables, consumer loans and secured loans held by the subsidiaries engaged in the credit card business, all of which are presented as loans for credit card business. These are exposed to credit risk associated with respective debtors.

Banking business-related assets include investment securities for banking business and loans for banking business. Investment securities for banking business mainly include securities in domestic bonds and foreign bonds, as well as trust beneficiary rights. Such securities are exposed to credit risk subject to the financial position of issuers, while trust beneficiary rights are exposed to credit risk of the issuers as well as underlying assets. Loans for banking business include unsecured card loans and residential mortgages for individual customers that are exposed to credit risk of individual customers.

Insurance business-related assets include investment securities for insurance business. Investment securities for insurance business mainly include government bonds, municipal bonds and corporate bonds, and are exposed to credit risk related to the financial position of issuers.

Investment securities include debt instruments, which are exposed to credit risk.

These financial assets are well diversified both in terms of the investees' types of business and their geographical locations, avoiding particular concentration of credit risk.



## 2) Management System of Credit Risks Associated with Financial Instruments

Specific methods and systems to manage various risks within the Group Companies are set out under various risk management regulations established at each Group Company.

Credit risks are managed under the group management regulations, through establishing individual credit limits, understanding the credit status of individual customers, and controlling due dates and loan balances on a regular basis, while efforts are made on early detection and mitigation of the risk of default resulting from deterioration of borrowers' financial conditions and other factors. Meanwhile, derivative transactions are managed based on "the Detailed Regulations for Hedge Trading Management." Derivative transactions are exposed to the risk of financial loss resulting from a counterparty's contractual default, though credit risk is deemed to be minimal, because counterparties are mainly financial institutions with superior credit ratings.

## 3) Exposure to Credit Risks

The Group Companies' maximum exposure to credit risk is as follows:

The maximum credit risk exposure (gross) represents the maximum exposure to credit risk without taking into account the collateral held by the Group Companies and any other credit enhancement. The maximum credit risk exposure (net) represents the maximum credit risk exposure, after reflecting the amount of credit risk mitigation through the collateral held by the Group Companies and any other credit enhancement. The amount of credit risk mitigation through the collateral held by the Group Companies and any other credit enhancement does not include part of the amount of collateral and others stated in "Note 40. Offsetting of Financial Assets and Financial Liabilities."

The maximum exposure to credit risk (gross) associated with financial assets stated as on-balance sheet items recognized in the Statements of Financial Position in the following table, are the same as their carrying amounts. The maximum exposure to credit risk associated with the provision of financial guarantees stated as off-balance sheet items in the following table, are the maximum amount payable in the event that exercise of the guarantee is requested. Meanwhile, the maximum exposure to credit risk associated with commitment line agreements is the unused portion of such commitment lines.

As of December 31, 2015

(Millions of Yen)

	Classification by creditworthiness			Total	Allowance for doubtful accounts	Maximum credit risk exposure (gross)	Total amount of collateral and credit enhancement	Maximum credit risk exposure (net)
	Financial assets neither past due nor impaired	Financial assets past due but not impaired	Financial assets impaired					
Items recognized in the Statement of Financial Position:								
Cash and cash equivalents	¥501,029	¥—	¥—	¥501,029	¥—	¥501,029	¥—	¥501,029
Accounts receivable — trade	88,959	14,828	2,838	106,625	(2,614)	104,011	—	104,011
Financial assets for securities business	1,109,073	211	1,481	1,110,765	(1,466)	1,109,299	327,320	781,979
Loans for credit card business	814,419	14,395	29,978	858,792	(24,972)	833,820	—	833,820
Investment securities for banking business	257,844	—	—	257,844	(75)	257,769	—	257,769
Loans for banking business	444,249	1,028	182	445,459	(1,415)	444,044	—	444,044
Investment securities for insurance business	15,308	—	—	15,308	—	15,308	—	15,308
Investment securities	10,128	—	—	10,128	—	10,128	—	10,128
Other financial assets	161,252	149	451	161,852	(212)	161,640	—	161,640
Total of items recognized in the Consolidated Statement of Financial Position:	3,402,261	30,611	34,930	3,467,802	(30,754)	3,437,048	327,320	3,109,728
Items not recognized in the Statement of Financial Position:								
Commitment lines	—	—	—	—	—	2,560,942	—	2,560,942
Financial guarantee agreements	—	—	—	—	—	12,335	—	12,335
Total of items not recognized in the Consolidated Statement of Financial Position:	—	—	—	—	—	2,573,277	—	2,573,277
Total	3,402,261	30,611	34,930	3,467,802	(30,754)	6,010,325	327,320	5,683,005

As of December 31, 2016

(Millions of Yen)

	Classification by creditworthiness			Total	Allowance for doubtful accounts	Maximum credit risk exposure (gross)	Total amount of collateral and credit enhancement	Maximum credit risk exposure (net)
	Financial assets neither past due nor impaired	Financial assets past due but not impaired	Financial assets impaired					
Items recognized in the Statement of Financial Position:								
Cash and cash equivalents	¥548,269	¥—	¥—	¥548,269	¥—	¥548,269	¥—	¥548,269
Accounts receivable — trade	105,251	11,984	2,586	119,821	(2,733)	117,088	—	117,088
Financial assets for securities business	1,119,423	165	1,644	1,121,232	(1,596)	1,119,636	265,899	853,737
Loans for credit card business	989,423	18,398	41,807	1,049,628	(34,920)	1,014,708	—	1,014,708
Investment securities for banking business	152,942	—	—	152,942	(50)	152,892	—	152,892
Loans for banking business	584,419	2,821	625	587,865	(2,065)	585,800	—	585,800
Investment securities for insurance business	18,071	—	—	18,071	—	18,071	—	18,071
Investment securities	10,623	—	—	10,623	—	10,623	—	10,623
Other financial assets	137,607	65	238	137,910	(233)	137,677	—	137,677
Total of items recognized in the Consolidated Statement of Financial Position:	3,666,028	33,433	46,900	3,746,361	(41,597)	3,704,764	265,899	3,438,865
Items not recognized in the Statement of Financial Position:								
Commitment lines	—	—	—	—	—	2,792,230	—	2,792,230
Financial guarantee agreements	—	—	—	—	—	10,362	—	10,362
Total of items not recognized in the Consolidated Statement of Financial Position:	—	—	—	—	—	2,802,592	—	2,802,592
Total	3,666,028	33,433	46,900	3,746,361	(41,597)	6,507,356	265,899	6,241,457

Classification of creditworthiness of loans for credit card business is based on consideration of the delinquency status and the repayment capability of each borrower.

Classification of creditworthiness of loans for banking business and investment securities for banking business is based on a determination of borrower's repayment capability considering their financial condition, cash flow and earnings capacity, and the respective financial assets are managed based on the probability of recovery from each borrower as well as the extent of associated impairment risks.

4) Aging Analysis of Past Due But Not Impaired Financial Assets

Aging analysis of past due but not impaired financial assets is as follows.

In the following aging analysis, amounts of financial assets, for which the payment terms have been extended or payment has not been made since the contractual due dates, are classified according to the length of the overdue period from the respective due dates for each fiscal year.

As of December 31, 2015

	(Millions of Yen)		
	Six months or less	Over six months to one year	Over one year
Accounts receivable — trade	¥13,842	¥537	¥449
Financial assets for securities business	150	9	52
Loans for credit card business (Note)	10,787	3,608	—
Loans for banking business	1,028	—	—
Other financial assets	58	13	78
<b>Total</b>	<b>25,865</b>	<b>4,167</b>	<b>579</b>

(Note) Among the loans for credit card business, those past due for three months or less is ¥7,872 million, while those past due between three and six months is ¥2,915 million.

As of December 31, 2016

	(Millions of Yen)		
	Six months or less	Over six months to one year	Over one year
Accounts receivable — trade	¥10,783	¥541	¥660
Financial assets for securities business	51	16	98
Loans for credit card business (Note)	13,413	4,985	—
Loans for banking business	2,821	—	—
Other financial assets	37	1	27
<b>Total</b>	<b>27,105</b>	<b>5,543</b>	<b>785</b>

(Note) Among the loans for credit card business, those past due for three months or less is ¥9,513 million, while those past due between three and six months is ¥3,900 million.

5) Financial Assets Individually Assessed as Impaired

Analysis of the financial assets individually assessed as impaired is as follows:

As of December 31, 2015

	(Millions of Yen)		
	Carrying amount	Allowance for doubtful accounts	Carrying amount less allowance for doubtful accounts
Accounts receivable — trade	¥2,838	¥(1,621)	¥1,217
Financial assets for securities business	1,481	(1,466)	15
Loans for credit card business	29,978	(15,677)	14,301
Loans for banking business	182	(67)	115
Other financial assets	451	(212)	239
<b>Total</b>	<b>34,930</b>	<b>(19,043)</b>	<b>15,887</b>

As of December 31, 2016

	(Millions of Yen)		
	Carrying amount	Allowance for doubtful accounts	Carrying amount less allowance for doubtful accounts
Accounts receivable — trade	¥2,586	¥(1,547)	¥1,039
Financial assets for securities business	1,644	(1,596)	48
Loans for credit card business	41,807	(22,977)	18,830
Loans for banking business	625	(227)	398
Other financial assets	238	(228)	10
<b>Total</b>	<b>46,900</b>	<b>(26,575)</b>	<b>20,325</b>

(2) Liquidity Risk

1) Outline of Liquidity Risk Associated with Financial Instruments

Within financial liabilities held by the Group Companies, borrowings and banking business-related liabilities are mainly exposed to liquidity risks. Borrowings are exposed to the risk of deteriorating funding conditions as a result of changes in the creditworthiness of the Group Companies against the transacting financial institutions and changes in the market environment.

2) Management of Liquidity Risk Associated with Financial Instruments

Methods to control liquidity risk associated with funding include a cash management plan to ensure adequate liquidity on hand in accordance with regulations established by each Group Company.

3) Analysis of Maturity of Financial Liabilities

The balances by maturity of financial liabilities (including derivatives) are as follows:

As of December 31, 2015

(Millions of Yen)

	One year or less	Over one year to two years	Over two years to three years	Over three years to four years	Over four years to five years	Over five years
Financial liabilities other than derivatives						
Accounts payable — trade	¥162,606	¥—	¥—	¥—	¥—	¥—
Deposits for banking business	1,180,098	30,510	21,834	5,784	5,695	140,955
Financial liabilities for securities business	987,244	—	—	—	—	—
Bonds and borrowings	258,328	101,284	68,762	120,967	42,689	66,895
Other financial liabilities	259,082	2,266	739	524	5,073	764
Derivative liabilities	9,293	398	283	202	151	111
Derivatives associated with cover deals of special time deposits	(859)	(909)	(408)	(281)	(287)	(4,805)
Off-balance sheet items						
Commitment lines	2,560,942	—	—	—	—	—
Financial guarantee agreements	12,335	—	—	—	—	—

(Note) Financial liabilities payable on demand are classified as “One year or less.” “Deposits for banking business” include ¥731,644 million of demand deposits.

“Derivatives associated with cover deals of special time deposits” are related to “Deposits for banking business.”

As of December 31, 2016

(Millions of Yen)

	One year or less	Over one year to two years	Over two years to three years	Over three years to four years	Over four years to five years	Over five years
Financial liabilities other than derivatives						
Accounts payable — trade	¥181,279	¥—	¥—	¥—	¥—	¥—
Deposits for banking business	1,405,002	28,074	7,180	5,617	1,428	65,495
Financial liabilities for securities business	1,059,639	—	—	—	—	—
Bonds and borrowings	262,448	88,093	89,504	187,316	53,297	35,870
Other financial liabilities	286,494	3,268	1,908	5,073	214	570
Derivative liabilities	5,197	410	277	188	103	29
Derivatives associated with cover deals of special time deposits	(785)	(257)	(121)	(113)	(121)	(1,953)
Off-balance sheet items						
Commitment lines	2,792,230	—	—	—	—	—
Financial guarantee agreements	10,362	—	—	—	—	—

(Note) Financial liabilities payable on demand are classified as “One year or less.” “Deposits for banking business” include ¥979,052 million of demand deposits.

“Derivatives associated with cover deals of special time deposits” are related to “Deposits for banking business.”

### (3) Market Risk

#### 1) Outline of Market Risk Associated with Financial Instruments

The Group Companies’ activities are exposed mainly to risks associated with changes in the economic environment and the financial market environment. Risks associated with changes in the financial market environment are specifically, exchange rate risk, interest rate risk and price fluctuation risk.

Financial assets held by the Group Companies exposed to market risks are mainly financial assets for securities business, investment securities for banking business, investment securities for insurance business, and investment securities.

Financial assets for securities business include foreign exchange margin transactions in the securities business. However, the exposure to exchange rate risk is minimal, in principle, as the Group Companies enter into cover deals with counterparties to mitigate market risks associated with these transactions with customers.

Investment securities for banking business mainly include securities in domestic bonds and foreign bonds, as well as trust beneficiary rights. Such securities are exposed to interest rate risk and exchange rate risk. Exchange rate risks of foreign bonds are hedged by entering into corresponding forward exchange contracts and by managing positions. Furthermore, exposure to price fluctuation risk is minimal, as the Group Companies’ subsidiaries engage in the banking business do not hold any listed shares.

Investment securities for insurance business mainly include government bonds, municipal bonds and corporate bonds, for which exposure to price fluctuation risk is minimal.

Investment securities include shares that are exposed to price fluctuation risk.

Within the financial liabilities held by the Group Companies, those exposed to market risks are mainly borrowings and banking business-related liabilities, which are exposed primarily to interest rate risk. Banking business-related liabilities include ordinary deposits, general time deposits and new types of time deposits for individual and corporate customers, as well as foreign currency ordinary deposits and foreign currency time deposits. Although new types of time deposits are exposed to interest rate risk, such risk is hedged by entering into corresponding interest rate swap transactions. Although foreign currency ordinary deposits and foreign currency time deposits are exposed to exchange rate risk, such risk is hedged by entering into corresponding forward exchange contracts.

## 2) Management of Market Risks Associated with Financial Instruments

Within the financial instruments associated with market risks, investment securities are subject to investment decisions based on consultation with the Board of Directors, as part of the management to ensure that such investment securities are appropriately evaluated according to internal regulations. With regard to foreign currency-denominated financial instruments, exchange markets are continuously monitored and the Group Companies' own positions are regulated by establishing position limits and maximum allowable losses for the prevention of any loss in excess of certain levels. With regard to financial assets held by subsidiaries engaged in the banking business, such financial assets and liabilities are measured at fair value assuming certain fluctuations in interest rates and exchange rates, and the effects on the net balance after offsetting such financial assets and liabilities (referred to as the "present value") are used in a quantitative analysis to manage interest rate risk and exchange rate risk.

## 3) Interest Rate Risk (Excluding the Subsidiaries Engaged in Banking Business)

The Group Companies' main financial liabilities are borrowings from financial institutions, of which borrowings at floating interest rates are exposed to interest rate risk.

Exposures associated with the Group Companies' financial liabilities are as follows:

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Bonds and borrowings	¥649,195	¥711,104
Floating interest rate	373,511	355,704
Fixed interest rate	275,684	355,400

In respect of the above exposures, given all the risk variables remaining constant, except for interest rate risk, if all the key interest rates increased by 10 basis points (0.1%) for the year ended December 31, 2015, income and equity would be negatively impacted by ¥300 million. Conversely, in the event a decrease of 0.1%, income and equity would be positively impacted by ¥300 million compared to the amounts reported as of December 31, 2015. Similarly, given all the risk variables remaining constant, except for interest rate risk, if all the key interest rates increased by 10 basis points (0.1%) for the year ended December 31, 2016, income and equity would be negatively impacted by ¥279 million. Conversely, in the event a decrease of 0.1%, income and equity would be positively impacted by ¥279 million compared to the amounts reported as of December 31, 2016.

Within bonds and borrowings with floating interest rates, the Group Companies have implemented interest rate swap transactions to reduce interest rate fluctuation risk, and the balances of fixed interests were ¥73,590 million and ¥76,770 million as of December 31, 2015



and 2016, respectively.

#### 4) Price Fluctuation Risk

Of the equity instruments held by the Group Companies, marketable equity instruments are exposed to share price fluctuation risk. The Group Companies regularly check the market prices of their equity instruments and financial conditions of their issuers.

The Group Companies carried out a sensitivity analysis as follows, based on the price risk of equity instruments at the end of the year.

In the event of a 5% rise in share prices, accumulated other comprehensive income (before tax effect) would increase by ¥470 million for the year ended December 31, 2015 due to changes in fair value. Conversely, in the event of a 5% fall, it would decrease by ¥470 million. Similarly, in the event of a 5% rise in share prices, accumulated other comprehensive income (before tax effect) would increase by ¥426 million for the year ended December 31, 2016 due to changes in fair value. Conversely, in the event of a 5% fall, it would decrease by ¥426 million.

#### 5) Management of Market Risks for Subsidiaries Engaged in Banking Business (Interest Rate Risk)

At the Group Companies' subsidiaries engaged in the banking business, financial assets exposed to interest rate risk, which is a significant risk variable, are mainly investment securities for banking business and loans for banking business.

Financial liabilities exposed to interest rate risk include, ordinary deposits and time deposits for individual and corporate customers, as well as foreign currency ordinary deposits, foreign currency time deposits and interest rate swap transactions as part of derivative transactions.

For these subsidiaries, the effect of present value of these financial assets and liabilities, given certain fluctuations in interest rates, is used in quantitative analysis as part of the process to manage interest rate risk.

In calculating the effect of the present value, the corresponding financial assets and financial liabilities are classified into a fixed rate group and a floating rate group, and then the balance of each group is allocated to an appropriate period based on maturity with a fluctuation range of the interest rate for the period. Specifically, given all the other risk variables remaining constant, except for the interest rate risk, when all the key interest rates increase 10 basis points (0.1%) for the year ended December 31, 2015, the present value as of December 31, 2015 would decrease by ¥1,186 million. Conversely, in the case of a decrease of 10 basis points (0.1%), it would increase by ¥1,186 million. Similarly, given all the other risk variables remaining constant, except for the interest rate risk, when all the key interest rates increase 10 basis points (0.1%) for the year ended December 31, 2016, the present value as of December 31, 2016 would decrease by ¥1,469 million. Conversely, in the case of a decrease of 10 basis points (0.1%), it would increase by ¥1,469 million.

These effects do not take into account correlations between interest rates and other risk variables, further foreign currency-denominated assets and liabilities are calculated in Japanese yen as translated by the exchange rates on December 31, 2015 and 2016. Additionally, the effects of a 10 basis point decline leading to negative interest rates in certain periods have not been excluded.

#### 42. Capital Management

The Group Companies' capital structure is as follows:

	(Millions of Yen)	
	December 31, 2015	December 31, 2016
Total liabilities	¥3,605,940	¥3,924,326
Less: Cash and cash equivalents	501,029	548,269
Net liabilities	3,104,911	3,376,057
Total equity	664,013	680,346

Certain subsidiaries of the Group Companies are required to maintain their capital-to-risk ratio and net assets, etc. above a certain level in accordance with the Japanese Financial Instruments and Exchange Act and other laws and regulations of a similar nature in foreign jurisdictions. Principal laws and regulations in each country and region applicable to the major subsidiaries are described in the chart as follows.

Country and region	Company name	Laws and regulations	Requirements
Japan	Rakuten Bank, Ltd.	Banking Law	Maintenance of minimum required equity ratio, etc.
	Rakuten Securities, Inc.	Financial Instruments and Exchange Act	Maintenance of minimum required capital-to-risk ratio, etc.
	Rakuten Life Insurance Co., Ltd.	Insurance Business Act	Maintenance of solvency margin ratio
Hong Kong	Rakuten Securities Hong Kong Limited	Securities and Futures Ordinance (Cap. 571)	Maintenance of minimum required capital, etc.

Each subsidiary adequately meets the capital requirements under the laws and regulations of each country and region.

#### 43. Related Parties

Related party transactions and their corresponding outstanding balances of receivables and payables between the Group Companies and other related parties are as follows. Although the consolidated subsidiaries are related parties of the Company, such transactions and the corresponding outstanding balances with subsidiaries are not subject to disclosure as they are eliminated for the purpose of consolidated financial statements.

##### (1) Related Party Transactions

	(Millions of Yen)					
	Year ended December 31, 2015			Year ended December 31, 2016		
	Associates	Executives	Total	Associates	Executives	Total
Revenue	¥2,236	¥—	¥2,236	¥2,449	¥—	¥2,449
Operating expenses	2,179	—	2,179	1,295	—	1,295
Accounts receivable — trade (Note 1)	310	—	310	209	—	209
Other Receivables (Note 2)	—	—	—	188	—	188
Other Financial Assets	2,542	—	2,542	3,258	—	3,258
Deposits for banking business	—	158	158	539	70	609
Financial liabilities for securities business	—	17	17	—	10	10
Other Financial Liabilities	5,444	—	5,444	6,233	—	6,233
Common stock	—	183	183	—	41	41
Capital reserve	—	183	183	—	41	41

(Note) 1. An allowance for doubtful accounts of ¥80 million has been recorded against accounts receivable—trade at December 31, 2015.

2. An allowance for doubtful accounts of ¥187 million has been recorded against Other Receivables at December 31, 2016.

3. There are no transactions involving collateral and guarantees.

##### (2) Transactions with Companies in which Majority of Voting Rights are Held by the Group Companies' Principal Shareholders (Individuals) and their Close Relatives

	(Millions of Yen)	
	Year ended December 31, 2015	Year ended December 31, 2016
Operating expenses (Note 1)	¥57	¥41
Accounts payable — other (Note 2)	11	—

(Notes) 1 Operating expenses for the years ended December 31, 2015 and 2016 are advertising expenses paid to Tokyo Philharmonic Orchestra, which are determined in the same manner as general terms of transactions.

2 Accounts payable — other for the year ended December 31, 2015 are co-sponsor fees for Tokyo Philharmonic Orchestra. Co-sponsor fees are determined based on general terms of transaction as in the transactions with independent third parties and offered for the purpose of social contribution. Hiroshi Mikitani, Chairman and President and Representative Director of the Company is concurrently serving as Chairman of Tokyo Philharmonic Orchestra.

(3) Executive Compensation

Executive compensation is as follows:

	(Millions of Yen)	
	Year ended December 31, 2015	Year ended December 31, 2016
Short-term employee benefits (Note)	¥883	¥682
Share-based payments	209	235
Total	1,092	917

(Note) Executive compensation comprises compensation to the officers of Rakuten, Inc. and other executives. Short-term employee benefits include salaries and bonuses for those employees who serve concurrently as employees and Directors.

44. Business Combinations

For the year ended December 31, 2015

Business Combination with OverDrive Holdings, Inc.

(1) Outline of the business combination is as follows:

- 1) Name of the Acquiree: OverDrive Holdings, Inc.
- 2) Description of the Business: A full-service digital distributor of eBooks, audio books and other content for libraries and educational institutions

3) Reason for the Business Combination

The Company regards digital content services as one of the pillars of its future growth strategy, following the Internet Services and FinTech, and has been constantly expanding its eBook business since the acquisition of Kobo Inc. (currently Rakuten Kobo Inc.) in 2012. The acquisition of OverDrive Holdings, Inc. will strengthen platforms, brands and innovative product development at both companies and is expected to accelerate their growth on a global scale, driven primarily by the well-established positioning of OverDrive Holdings, Inc., as well as tangible and intangible assets accumulated over the years, along with Rakuten Kobo Inc.'s proven achievements of technology innovation, overseas expansion and solid global relationships with publishers.

4) Acquisition Date: April 27, 2015

5) Type of Business Combination: Acquisition of shares

6) Name after the Business Combination: No change in the name of the company after the business combination

7) Ratio of Acquired Voting Rights: 100.0%

8) Rationale for determining that the Company is the Acquirer

The Company acquired all the shares in OverDrive Holdings, Inc. in exchange for cash consideration.

(2) Information on Consideration Paid for Acquiree

	(Millions of Yen)
Consideration paid:	
Cash	¥50,218
Total consideration paid	50,218

(3) Costs directly associated with the acquisition were ¥208 million presented as "Operating expenses."

(4) The amount of, and reason for goodwill recognition are as follows:

- 1) Amount of goodwill: 309 million U.S. dollars
- 2) Reason for goodwill recognition: Goodwill has been recognized based on a reasonable estimation of the excess earnings power anticipated in association with future business development.

(5) Assets acquired and liabilities assumed at the acquisition date are as follows:

(Millions of U.S. dollars)	
	Fair Value
<b>Assets</b>	
Cash and cash equivalents	\$17
Intangible assets	135
Others	35
<b>Total assets</b>	<b>187</b>
<b>Liabilities</b>	
Accounts payable — other	3
Others	78
<b>Total liabilities</b>	<b>81</b>

(6) The impact on the Group Companies' revenue and net income on the assumption that the business combination had taken place on January 1 would be insignificant, and thus the description is omitted.

For the year ended December 31, 2016

There are no significant matters to be noted.

#### 45. Major Subsidiaries

##### (1) Major Subsidiaries

Major subsidiaries of the Group Companies are as follows:

Name	Location	Capital	December 31, 2015		December 31, 2016		Notes
			Voting rights ratio	Ownership	Voting rights ratio	Ownership	
Internet Services Segment:							
Kenko.com, Inc.	Fukuoka	¥100 million	56.7%	56.7%	100%	100%	
Rakuten Inc.	Kobo Canada	858 million Canadian dollars	100%	100%	100%	100%	
RAKUTEN MARKETING LLC	U.S.	1 U.S. dollar	100%	100%	100%	100%	
Ebates Inc.	U.S.	0.1 U.S. dollar	100%	100%	100%	100%	
OverDrive Holdings, Inc.	U.S.	1 U.S. dollar	100%	100%	100%	100%	(Note 2)
Rakuten Communications Corp.	Tokyo	¥2,026 million	100%	99.6%	100%	99.6%	(Note 1)
Rakuten Baseball, Inc.	Miyagi	¥100 million	100%	100%	100%	100%	
VIBER LTD.	MEDIA Grand Duchy of Luxembourg	71 thousand U.S. dollars	100%	100%	100%	100%	
FinTech Segment:							
Rakuten Co., Ltd.	Card Tokyo	¥19,324 million	100%	100%	100%	100%	
Rakuten Ltd.	Bank, Tokyo	¥25,954 million	100%	100%	100%	100%	
Rakuten Securities, Inc.	Tokyo	¥7,496 million	100%	100%	100%	100%	
Rakuten Insurance Ltd.	Life Co., Tokyo	¥2,500 million	100%	100%	100%	100%	

(Notes) 1 The discrepancy between the voting rights ratio and ownership of Rakuten Communications Corp. is due primarily to the fact that Rakuten Communications Corp. holds treasury stock.

2 OverDrive Holdings, Inc. has become a consolidated subsidiary of the Company from the year ended December 31, 2015.

##### (2) Changes in Ownership

For the year ended December 31, 2015

The Group Companies acquired control over OverDrive Holdings, Inc. on April 27, 2015, making it a consolidated subsidiary. The transactions associated with the acquisition are described in Note 44. Business Combinations.

For the year ended December 31, 2016

There are no special matters to be noted.

#### 46. Structured Entities

##### Consolidated Structured Entities

The Group Companies consolidate certain structured entities as trusts for securitizing receivables.

These trusts for securitization and other funds are structured entities, which have been designed so that voting or similar rights are not the dominant factor in deciding who controls these entities.

The Group Companies have the right to direct the investment or servicing activities of these structured entities. In addition, the Group Companies, by holding subordinated beneficial interests collateralized by entrusted assets, will be exposed to variability of investment returns. Accordingly, it is determined that the Group Companies have control over these structured entities.

In accordance with the contractual arrangements with the structured entities, use of assets and settlement of liabilities of these consolidated structured entities are restricted to the purposes for which they are structured.

The carrying amounts of assets and liabilities of the consolidated structured entities are as follows:

Carrying amounts of assets and liabilities of the consolidated structured entities

(Millions of Yen)

	December 31, 2015	December 31, 2016
<b>Assets</b>		
Loans for credit card business	¥29,474	¥30,049
Others	1,260	1,512
<b>Total assets</b>	<b>30,734</b>	<b>31,561</b>
<b>Liabilities</b>		
Bonds and borrowings	11,000	17,000
Others	23	307
<b>Total liabilities</b>	<b>11,023</b>	<b>17,307</b>

### Unconsolidated Structured Entities

The Group Companies engage in investment activities involving structured entities as part of their banking business and other businesses. These structured entities handle securitized products that are set up by third parties and collateralized assets including monetary claims such as auto loans, consumer loans and bonds, various real estates, derivatives, and other bonds. The Group Companies have interests in these structured entities as a result of holding bonds issued by such entities and through trust beneficiary interests. The risks of these products are managed regularly on an individual basis under the group management regulations for the banking business and other businesses, for early recognition and mitigation of the risk of default resulting from deterioration of the debtors' financial conditions and other factors.

Additionally, the Group Companies set up investment trust funds that are provided to meet the needs of investors as part of their investment management business. However, the Group Companies do not hold interests in such investment trust funds. Certain subsidiaries that are not categorized as investment management business provide investment trust services, but the Group Companies do not hold interests in such trusts.

The Group Companies do not provide any guarantee or commitment to these structured entities. As a result, the maximum exposure to loss associated with the Group Companies' interests in these unconsolidated structured entities is limited to the carrying amount of the investments in bonds and trust beneficiary interests held therein. The maximum exposure to loss represents the potential maximum loss the Group Companies could incur and does not reflect the likelihood of such a loss being incurred.

The following table shows the summary of the Group Companies' maximum exposure to loss from its interests in these structured entities by class of asset held therein.

Carrying amount of unconsolidated structured entities and maximum exposure to loss from interests in such entities

		(Millions of Yen)	
Consolidated statements of financial position	Class of asset held by structured entities	December 31, 2015	December 31, 2016
Investment securities for banking business	Securitization products set up by third parties		
	Public and corporate bonds	¥10,503	¥12,000
	Monetary claims for individual customers	26,386	25,743
	Others	4,100	3,914
Others		2,024	3,069
Total		43,013	44,726



#### 47. Subsequent Events

##### Acquisition of treasury stock

The Company resolved to acquire its treasury stock in accordance with the Articles of Incorporation pursuant to the provisions of Article 459, Paragraph 1, Item 1 of the Companies Act at its meeting of the Board of Directors held on February 20, 2017.

##### (1) Reason for the acquisition of treasury stock

Factors including the market price of the Company's shares, capital efficiency and financial position were comprehensively taken into consideration.

##### (2) Details of the acquisition

- 1) Class of shares to be acquired: the Company's common stock
- 2) Total number of shares to be acquired: 120,000,000 shares (maximum)  
(Representing 8.4% of total number of shares issued  
excluding treasury stock)
- 3) Total acquisition price: ¥100.0 billion (maximum)
- 4) Acquisition period: February 22, 2017 to February 21, 2018

## 48. Classification of Current and Non-current

As of December 31, 2015

(Millions of Yen)

	Collection or settlement period		Total
	12 months or less	Over 12 months	
<b>Assets</b>			
Cash and cash equivalents	¥501,029	¥—	¥501,029
Accounts receivable — trade	102,795	1,216	104,011
Financial assets for securities business	1,109,222	77	1,109,299
Loans for credit card business	583,630	250,190	833,820
Investment securities for banking business	187,286	70,483	257,769
Loans for banking business	14,872	429,172	444,044
Investment securities for insurance business	10	15,298	15,308
Derivative assets	18,461	2,851	21,312
Investment securities	6,981	144,256	151,237
Other financial assets	142,284	19,356	161,640
Investments in associates and joint ventures	—	16,912	16,912
Property, plant and equipment	—	48,442	48,442
Intangible assets	—	514,752	514,752
Deferred tax assets	—	28,252	28,252
Other assets	26,528	35,598	62,126
<b>Total assets</b>	<b>2,693,098</b>	<b>1,576,855</b>	<b>4,269,953</b>
<b>Liabilities</b>			
Accounts payable — trade	162,606	—	162,606
Deposits for banking business	1,168,207	198,577	1,366,784
Financial liabilities for securities business	987,244	—	987,244
Derivative liabilities	9,324	1,299	10,623
Bonds and borrowings	255,018	394,177	649,195
Other financial liabilities	258,618	9,830	268,448
Income taxes payable	24,718	—	24,718
Provisions	49,699	4,430	54,129
Policy reserves and others for insurance business	—	21,635	21,635
Deferred tax liabilities	—	20,417	20,417
Other liabilities	37,935	2,206	40,141
<b>Total liabilities</b>	<b>2,953,369</b>	<b>652,571</b>	<b>3,605,940</b>

As of December 31, 2016

(Millions of Yen)

	Collection or settlement period		Total
	12 months or less	Over 12 months	
<b>Assets</b>			
Cash and cash equivalents	¥548,269	¥—	¥548,269
Accounts receivable — trade	116,048	1,040	117,088
Financial assets for securities business	1,120,167	517	1,120,684
Loans for credit card business	706,827	307,881	1,014,708
Investment securities for banking business	60,542	96,773	157,315
Loans for banking business	19,923	565,877	585,800
Investment securities for insurance business	—	18,071	18,071
Derivative assets	20,072	1,741	21,813
Investment securities	7,643	165,433	173,076
Other financial assets	109,003	28,675	137,678
Investments in associates and joint ventures	—	41,130	41,130
Property, plant and equipment	—	53,271	53,271
Intangible assets	—	506,087	506,087
Deferred tax assets	—	25,681	25,681
Other assets	40,208	43,793	84,001
<b>Total assets</b>	<b>2,748,702</b>	<b>1,855,970</b>	<b>4,604,672</b>
<b>Liabilities</b>			
Accounts payable — trade	181,279	—	181,279
Deposits for banking business	1,400,646	105,300	1,505,946
Financial liabilities for securities business	1,059,639	—	1,059,639
Derivative liabilities	5,330	1,268	6,598
Bonds and borrowings	260,293	450,811	711,104
Other financial liabilities	286,494	10,995	297,489
Income taxes payable	12,674	—	12,674
Provisions	60,511	4,724	65,235
Policy reserves and others for insurance business	—	24,462	24,462
Deferred tax liabilities	—	17,428	17,428
Other liabilities	41,827	645	42,472
<b>Total liabilities</b>	<b>3,308,693</b>	<b>615,633</b>	<b>3,924,326</b>

## (2) [Others]

## Quarterly Information for the current fiscal year

(Millions of Yen, unless otherwise stated)

(Cumulative period)	1Q	2Q	3Q	Year ended December 31, 2016
Revenue	¥180,300	¥368,906	¥559,357	¥781,916
Income before income tax	22,221	47,121	72,272	73,923
Net income	11,749	26,549	43,958	38,001
Basic earnings per share (Yen)	¥8.24	¥18.65	¥30.83	¥26.65
(Each quarter)	1Q	2Q	3Q	4Q
Basic earnings (loss) per share (Yen)	¥8.24	¥10.40	¥12.19	¥(4.17)



Ernst & Young ShinNihon LLC  
Hibiya Kokusai Bldg.  
2-2-3 Uchisaiwai-cho, Chiyoda-ku  
Tokyo 100-0011, Japan  
Tel: +81 3 3503 1100  
Fax: +81 3 3503 1197  
www.shinnihon.or.jp

## Independent Auditor's Report

The Board of Directors  
Rakuten, Inc.

We have audited the accompanying consolidated financial statements of Rakuten, Inc. and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended and notes to consolidated financial statements, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rakuten, Inc. and its consolidated subsidiaries as at December 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with International Financial Reporting Standards.

### *Emphasis of Matter*

We draw attention to Note 47 to the consolidated financial statements, which describes Rakuten, Inc. resolved to acquire its treasury stock at its meeting of the Board of Directors held on February 20, 2017. Our opinion is not qualified in respect of this matter.

*Ernst & Young ShinNihon LLC*

March 30, 2017



**Annual Report | Fiscal Year Ended December 31, 2016**

**Rakuten, Inc.**

**TEL: +81-50-5581-6910 URL: <https://global.rakuten.com/corp/investors/>**

**1-14-1 Tamagawa, Setagaya-ku, Tokyo, 158-0094, Japan**