

# **Empowerment through Innovations**

**Corporate Report 2017**

**Rakuten**



# 20<sup>TH</sup> Anniv.

## Our Philosophy

Rakuten Group's mission is to contribute to society by creating value through innovation and entrepreneurship. By providing high-quality services that help our users and partners grow, we aim to advance and enrich society. To fulfil our role as a Global Innovation Company, we are committed to maximizing both corporate and shareholder value.

CEO Mikitani and his co-founders in the early days of the company.  
The monitor image recreates Rakuten Ichiba's top page at the time of its launch in 1997.

## **Mission**

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

Empowering people to realize their hopes and dreams,  
Embracing new thinking,  
Rakuten changes the world through innovation.

## **Vision**

# **Global Innovation Company**

At Rakuten, we drive disruptive innovation, engaging knowledge, creativity and passion from around the world. To achieve ambitious goals and help build communities in which people can pursue their dreams and live in happiness.

## **Values and Principles**

# **Rakuten Shugi** (Rakuten Basic Principles)

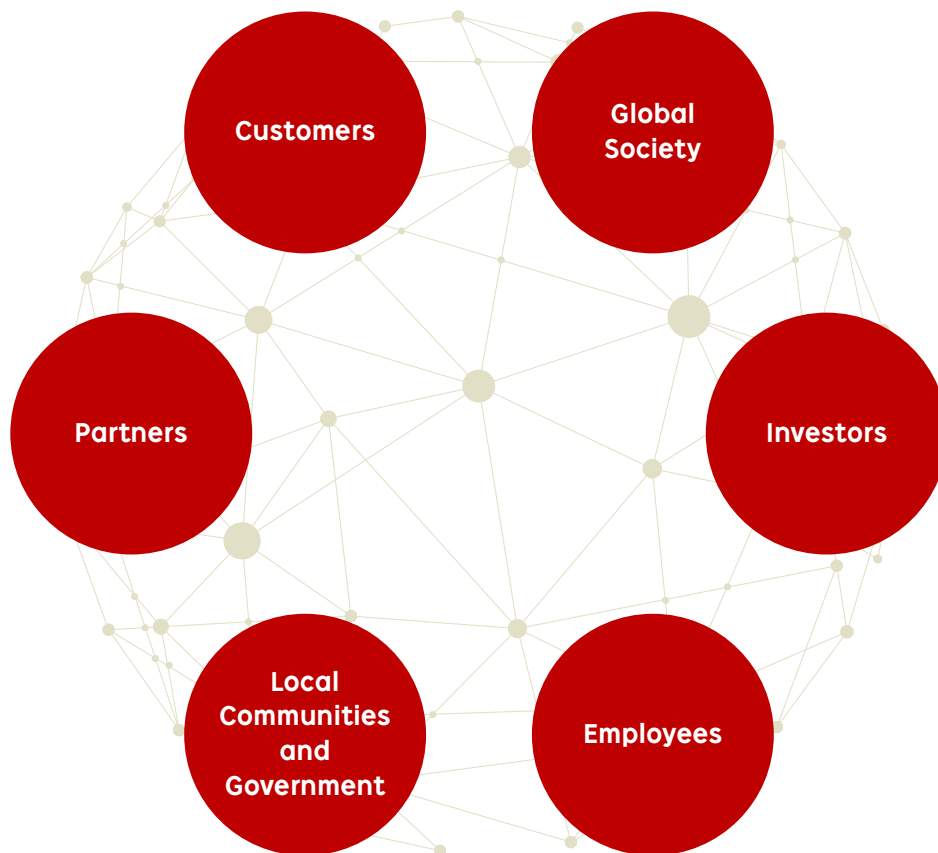
Rakuten employees are united by the values and principles represented by Rakuten Shugi. With this common foundation, we place high value on the entrepreneurial spirit that drives us to get things done. By working with local communities and nurturing a robust corporate culture enabling each member of our diverse team to perform at their best, the Rakuten Group is committed to boosting corporate value and contributing to progress in society.

## Vision for Sustainability

# Helping to Build a Sustainable Society with Our Stakeholders

The concept of empowerment is at the center of Rakuten's business model. We believe that this distinct and unique business model has enabled us to achieve growth and development with our partners, while contributing to the enrichment of society. Rakuten will continue to work toward the improvement of society with diverse stakeholders who share our values, including customers, partners, local communities, shareholders, and employees.

## Our Stakeholders



A large red circular graphic on the left side of the page, partially cut off by the edge. The word "Contents" is written in white text inside the circle.

## Contents

- 4 A Letter from the CEO**
- 8 Rakuten's Corporate Value**
- 14 Financial Highlights**
- 16 Review of Operations in Fiscal 2017**
- 22 CFO Message**
- 24 Corporate Governance**
- 26 Management Team**
- 28 Rakuten's Sustainability**
- 28 Sustainability Message**
- 30 Understanding Rakuten's Sustainability**
- 32 Safe and Convenient Services**
- 34 Workspace and Human Resources**
- 36 Rakuten and the Environment**
- 38 Social Contribution Activities**
- 42 Awards and Recognitions**
- 43 Non-financial Data**
- 44 Financial Statements**
- 50 Corporate Information**
- 51 Corporate History**

**A Letter from the CEO**

**Hiroshi Mikitani**  
Chairman and CEO



## To Our Stakeholders

### Our 20 Years of Growth and the Future

For the past 20 years, Rakuten has achieved continuous business growth by constantly innovating in anticipation of the spread and evolution of the internet. We believe that the next 20 years will bring social changes incomparably greater than those that have occurred over the past two decades. For example, anyone traveling in China will immediately be aware of the rapid spread of new services, such as cashless settlements and the sharing economy. The waves generated by these new technologies will eventually reach Japan and the entire world. We are determined to anticipate and adapt to these changes by committing ourselves to new challenges in partnership with our stakeholders. Our goal is to improve Rakuten's corporate value while contributing to society through our business activities and innovation.

Rakuten Group's annual gross transaction value in 2017, our 20th anniversary year, reached ¥12.9 trillion, while the number of unique user IDs climbed to a global total of over one billion. We are very grateful for our stakeholders' continuing support for Rakuten's unique business model, without which this success would not have been possible.

### Massive Expansion of the Rakuten Ecosystem

Around the world, we are seeing changes to the definition of online shopping, and the boundaries between online and offline retail are being broken down. For example, consumers can use benefits acquired through their online loyalty program when paying for purchases in brick-and-mortar stores. They can order online and pick up at the offline store of their choice. The growing use of IDs and data in every aspect of life will bring major changes to both consumption and marketing, which will lead to a retail revolution.

This situation is reflected in the collaborative initiatives that we have announced recently with major retailers, such as Walmart, and BIC CAMERA, one of Japan's leading electronics chain stores. There has also been an increase in collaborations with third-party companies through the Rakuten Super Points loyalty program.

As Rakuten members engage with the diverse range of services that make up the Rakuten Ecosystem, massive volumes of data are generated. While complying with all legal and regulatory requirements, we champion innovation that draws on this wealth of data to improve the online experience of all of our members.

\* For more details about our information security, please see Pages 32 and 33.

## To Our Stakeholders

**“Our ambition is to not just remain a Japanese domestic internet company, but to become one of the top global innovative companies.”**



### Towards Becoming a Cashless Society

Rakuten Card is now the number-one credit card in Japan by shopping transaction value\*1. Since the launch of its services in 2005, Rakuten Card has worked to expand the adoption of credit cards in Japan. However, the percentage of cashless settlements in Japan, including credit card and e-money payments, is still comparatively low (18%\*2 in 2015), and the inefficiencies that occur in a cash-based society are still a problem. Retailers have welcomed Rakuten Pay as a solution to problems relating to commercial practices in the credit card industry, including long payment lead times and high costs. Rakuten Pay also has adopted other settlement methods, such as QR codes and barcode payment. Rakuten will continue to drive the shift to a cashless society through its FinTech services.

\*1 Source: Based on public data released by Rakuten and other companies

\*2 Source: Ministry of Economy, Trade and Industry, *FinTech Vision*, May 2017

### Enhancing E-Commerce Quality in Japan

Empowerment has been a core concept for Rakuten since its founding. We have empowered merchants to communicate directly with customers, and have achieved growth and development with our partners by creating e-commerce platforms that provide consumers with a rich variety of content and services. We continually strive to improve the quality of our services based on input from our partners and customers, such as the introduction of a streamlined delivery system, standardized settlement methods, and the provision of chat functions. We aim to build our own delivery network within two years through partnerships and other approaches. We will also strengthen our first party and consumer-to-consumer (C2C) services to meet the diverse needs of our customers.

### Global Expansion

Initiatives to accelerate our global expansion include the formation of partnerships with FC Barcelona and the Golden State Warriors, and brand integration. Over the past year, Rakuten's overseas business has grown as our recognition as a global brand increases. The Rakuten Ecosystem expanded steadily, with revenue generated by Rakuten Viber more than doubling, and the number of unique IDs reached one billion. In the United States, Ebates is achieving steady growth, and there has also been sustained expansion in other business areas, including data marketing and media.



## To Our Stakeholders

### Entry into the Mobile Network Operator Carrier Business

In December 2017, we announced our intention to enter the MNO (mobile network operator) business in Japan by establishing our own mobile network, with October 2019 as the target launch date for services. The adoption of smartphones in Japan has been slower than in other countries, only reaching 56.8% in 2017, compared to 78% in the U.S., 82% in Germany and 96% in Korea\*<sup>3</sup>. One reason for this appears to be the high smartphone fees due to a coordinated oligopoly. If Rakuten's entry into the market leads to lower charges, we can expect more people to use smartphones, while existing users will have more money for other types of consumption.

Mobile communication data speeds will continue to improve. In the IoT (Internet of Things) era, MNOs are likely to play an increasingly important role in people's lives. In Japan, 95 million members use various Rakuten services, and we aim to leverage this member base as a launch pad for unique services that reflect the Rakuten culture. We plan capital expenditure of ¥526.3 billion by 2028 to build our MNO service, under a policy that emphasizes an optimal balance of lean investment, service quality, and cost. The path ahead will not be an easy one, but we have accepted this challenge as part of our commitment to consumer empowerment and economic revitalization in Japan.

\*<sup>3</sup> Source: Ministry of Internal Affairs and Communications, *Information and Communications White Paper 2017*

### Innovation

In June 2017, the Japanese government adopted "Investments for the Future Strategy 2017" and "Basic Policy on Economic and Fiscal Management and Reform 2017" by Cabinet decision. These initiatives recognize the need to incorporate innovations such as IoT, big data, AI (Artificial Intelligence), robotics, and the sharing economy throughout all industries and society as a whole. Under such an environment, we are at the forefront of corporate efforts to combine knowledge from these fields in order to accelerate the development of businesses such areas as C2C, sharing services, and investment including ad technology, insurance technology and mobile network operator MNO business, bringing together membership, big data, and branding.



**“We are transforming ourselves, from an e-commerce-centric model to one that is built around a strong brand, membership and rich data.”**

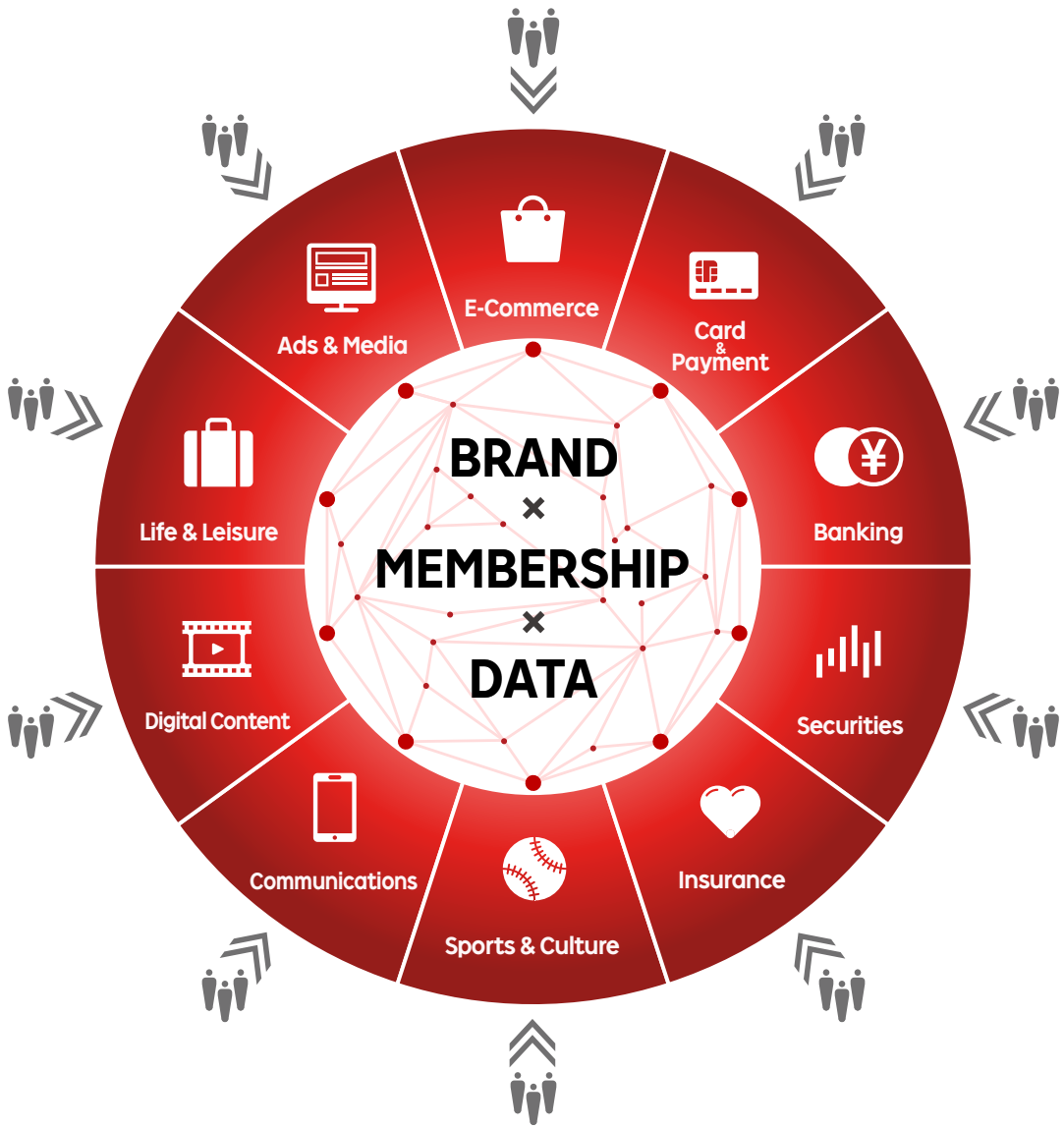
A handwritten signature in black ink that reads "Hiroshi Mikitani".

**Hiroshi Mikitani**  
Chairman and CEO

# Rakuten's Corporate Value

Rakuten provides a diverse range of internet and FinTech services in Japanese and overseas markets. The Rakuten membership, brand, and data are vital non-financial assets that form the core of these business operations. By enabling Rakuten members to access a variety of services using the same ID, we have formed the Rakuten ecosystem. This is enhancing our corporate value by maximizing the lifetime value of each member, reducing membership recruitment costs, and expanding gross transaction value.

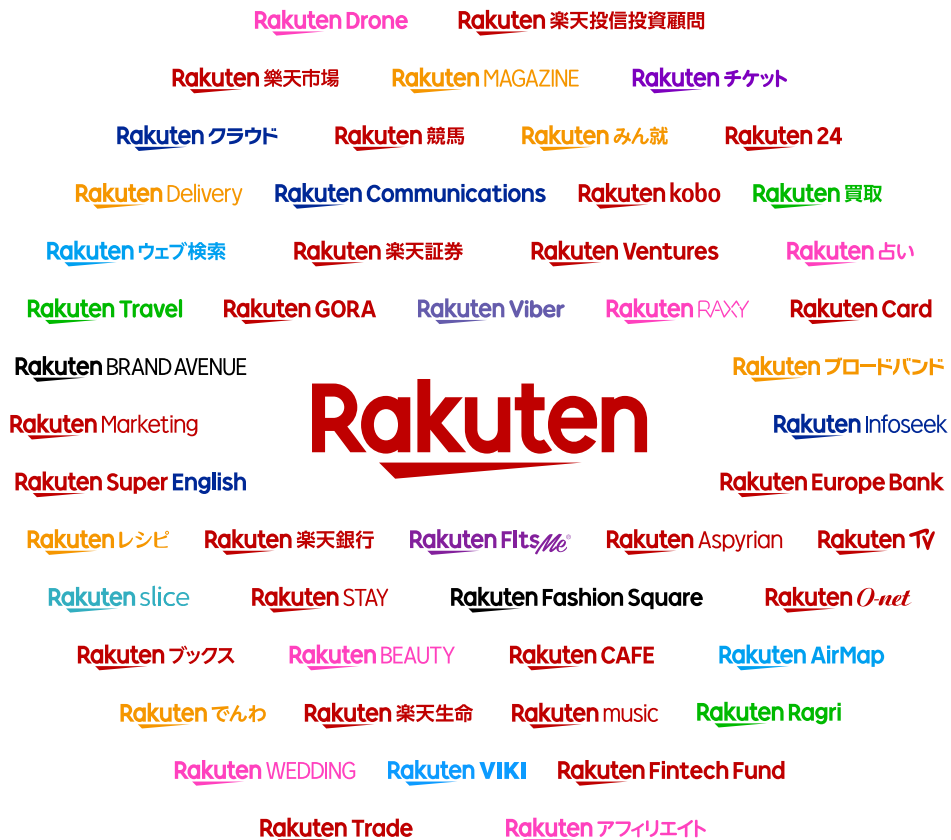
## Rakuten Ecosystem



## Rakuten's Corporate Value

Japan's first free markets were established under the *Rakuichi Rakuza* (free market and open guild) system adopted during the Muromachi Period (14<sup>th</sup>–16<sup>th</sup> centuries). The name of our first e-commerce service, “Rakuten Ichiba” (Rakuten Market), is inspired by this and expresses our ambition to create a similar environment in which people would be empowered to trade freely. “Rakuten” is also the Japanese word for “optimistic” and is an expression of our belief in a brighter, better future. Since those early days, we have expanded the Rakuten brand to include other areas, such as finance and communications. In 2018, we renewed our global brand logo with a new design that represents our passionate commitment to the next stage of growth.

## Rakuten Brand Story



# Rakuten's Corporate Value

FC Barcelona is one of Spain's top soccer clubs and most globally recognized brands, with hundreds of millions of fans worldwide. The Golden State Warriors basketball team is one of the strongest and most popular contenders in the North American National Basketball Association. Through the partnerships that we have formed with both of these teams, we aim to strengthen Rakuten's presence in global markets and drive its evolution into a brand recognized, loved, and supported by people throughout the world.

## Global Brand



# GLOBAL PARTNERSHIP

# Rakuten's Corporate Value

Rakuten is expanding its expertise in innovative fields, such as IoT, big data, AI, robots, and the sharing economy, while accelerating the development of business operations that bring together its membership base, big data, and brand. We aim to achieve massive expansion of the Rakuten ecosystem while contributing to the improvement of society, by going beyond the accepted wisdom of the past to achieve rapid innovation in many different fields.

## Innovation

**Drone Potential**



**FinTech Advantage**



**AI Evolution**



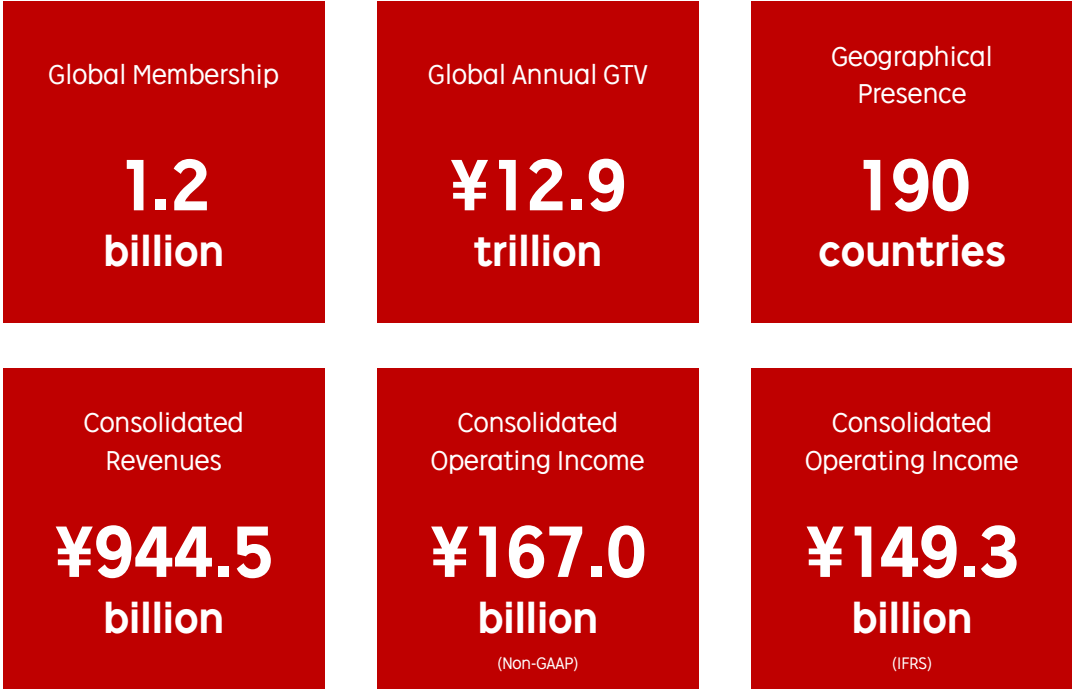
**Marketing Revolution**



# Rakuten's Corporate Value

## Global Presence

Rakuten Group empowers individuals and businesses around the world through innovation in internet and FinTech services. Today, our 70+ businesses span e-commerce, digital content, communications and FinTech, bringing the joy of discovery to more than 1.2 billion members around the world.



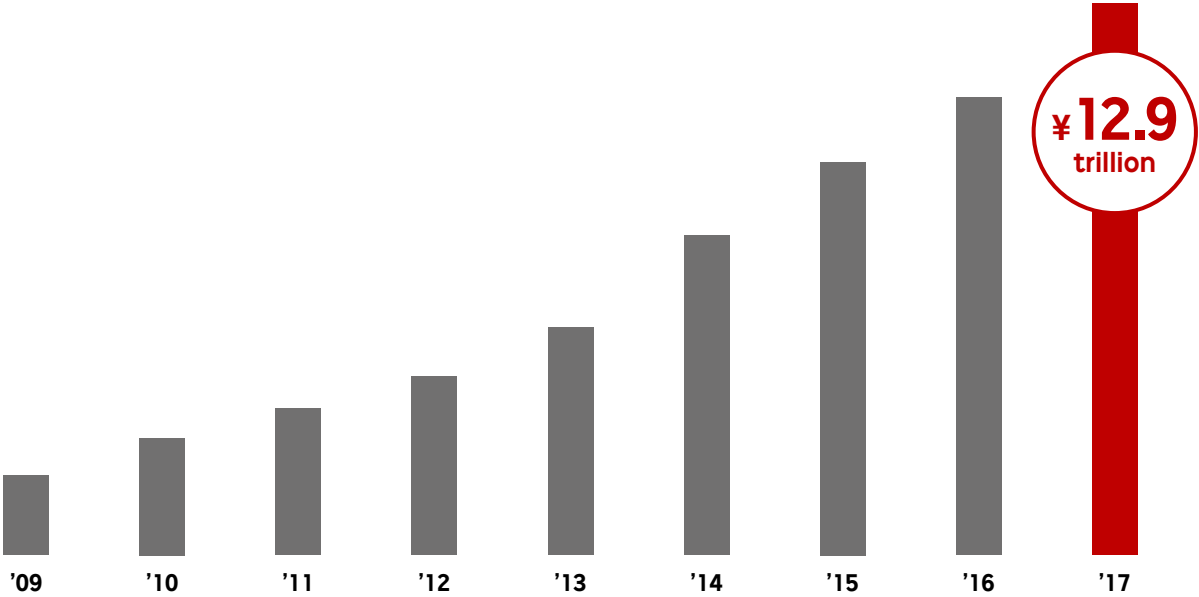
## Global Gross Transaction Volume

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



Rakuten's Corporate Value

<p>Registered Members in Japan</p> <p><b>95.2 million</b></p>	<p>Domestic EC Annual GMS</p> <p><b>¥3.4 trillion</b></p>	<p>Business Line-Up in Japan</p> <p><b>70+ services</b></p>
<p>Number of Employees</p> <p><b>14,845</b></p>	<p>Number of Consolidated Subsidiaries</p> <p><b>146 companies</b></p>	<p>Global Initial Investment*</p> <p><b>\$1.8 billion</b></p> <p><small>*Rakuten Capital</small></p>



## Financial Highlights

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2015	2016	2017	2017
<b>Income and Loss</b>				
Revenue	¥ 713,555	¥ 781,916	¥ 944,474	\$ 8,406,534
Operating income (Non-GAAP) (Note 2)	154,242	119,615	167,010	1,486,513
Operating income (IFRS)	96,778	78,512	149,344	1,329,279
Net income	45,885	38,435	110,488	983,426
<b>Cash Flows</b>				
Net cash flows from operating activities	¥ 78,245	¥ 30,700	¥ 162,056	\$ 1,442,419
Net cash flows from used in investing activities	(224,078)	(26,841)	(203,718)	(1,813,246)
Net cash flows from financing activities	221,831	45,200	194,458	1,730,827
<b>Assets and Liabilities</b>				
Total assets	¥4,269,953	¥4,604,672	¥6,184,299	\$55,044,937
Total liabilities	3,601,872	3,922,182	5,500,891	48,962,091
Total net assets	668,080	682,490	683,408	6,082,846
	Yen		U.S. dollars	
<b>Earnings per Share Attributable to Owners of the Company</b>				
Net income (basic)	¥ 33.50	¥ 26.96	¥ 80.03	\$ 0.71
Net income (diluted)	33.25	26.74	79.28	0.71
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 ¥112.35 to US\$ 1, the approximate rate of exchange at December 31, 2017.

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. Please see the reconciliation sheet on PXX.

## Overview

### Business Results for the Fiscal Year Ended December 31, 2017 (Non-GAAP basis)

The Rakuten Group is at the forefront of corporate efforts to combine knowledge from these fields in order to accelerate the development of businesses that bring together membership, big data, and brands. New business portfolios such as the MVNO (Mobile Virtual Network Operator) services business, C2C business, sharing economy services, ad technology, InsurTech, and investment business are growing steadily.

In domestic e-commerce services, the mainstay of Internet Services, the Rakuten Group is making every effort towards further growth in gross merchandise sales and revenues by proactively implementing various measures including sales promotion activities to cultivate loyal customers and win new users, programs aimed at improving customer satisfaction, and strategies to enhance services for smart devices, further opening up the Rakuten Ecosystem. Results are on track for an improvement in overseas internet services, due to contributions from the steady growth in U.S. subsidiary Ebates Inc. ("Ebates") and other factors. The Rakuten Group is also making investments in companies that have new technologies or innovative business models, and has recorded unrealized gains on stocks as well as gains on sales related to these investments.

In the FinTech segment, further expansion of Rakuten Card's membership base brought in more commission income, while expansion of banking services and the strong domestic stock market had a positive effect on securities services. These contributed to a solid increase in both revenue and profit. In credit card related services, we have undertaken a full-scale update of the core system, with the aim to flexibly operate services, provide greater user friendliness and create an environment which enables our members to use credit cards without concern on a long-term basis. As a result, the Rakuten Group achieved revenue of ¥944,474 million, up 20.8% year on year, for the fiscal year ended December 31, 2017, and Non-GAAP operating income increased by 39.6% year on year to ¥167,010 million.

### Operating Results for the Fiscal Year Ended December 31, 2017 (IFRS basis)

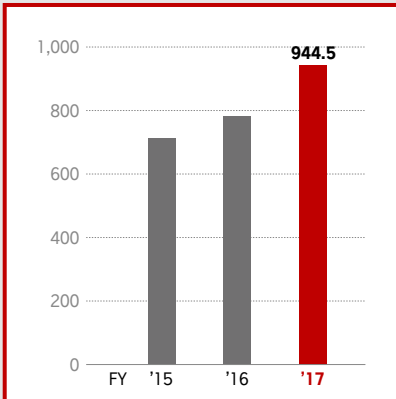
The Rakuten Group recorded revenue of ¥944,474 million, up 20.8% year on year, operating income of ¥149,344 million, up 90.2% year on year, and net income attributable to owners of the parent company of ¥110,585 million, up 187.8% year on year, for the fiscal year ended December 31, 2017.



## Key Figures

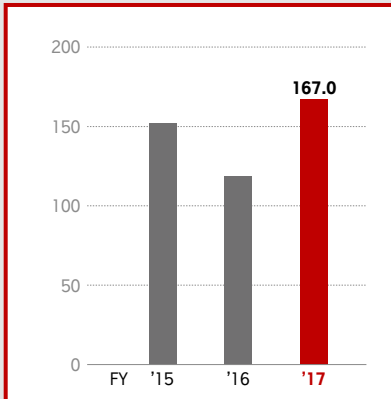
### Revenue

(Billions of yen)



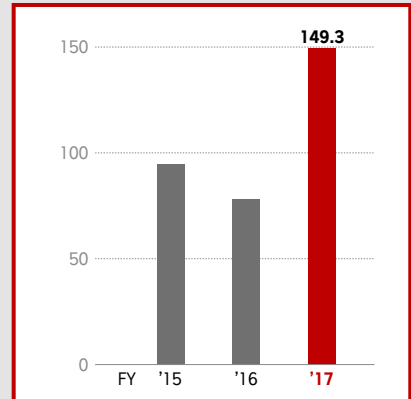
### Operating Income (Non-GAAP)

(Billions of yen)



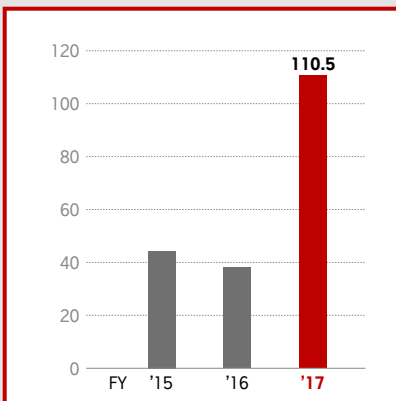
### Operating Income (IFRS)

(Billions of yen)



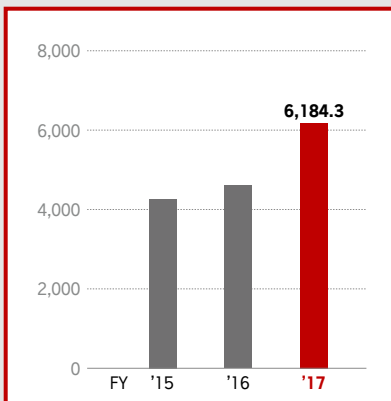
### Net Income

(Billions of yen)



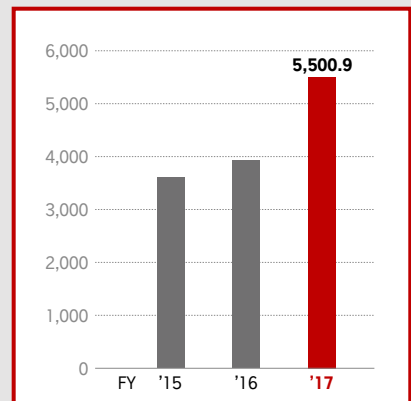
### Total Assets

(Billions of yen)



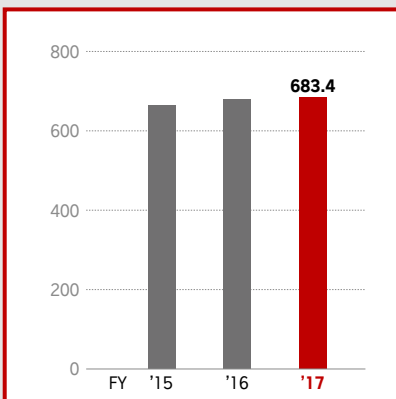
### Total Liabilities

(Billions of yen)



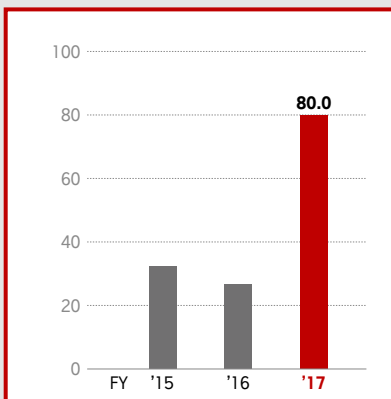
### Total Net Assets

(Billions of yen)



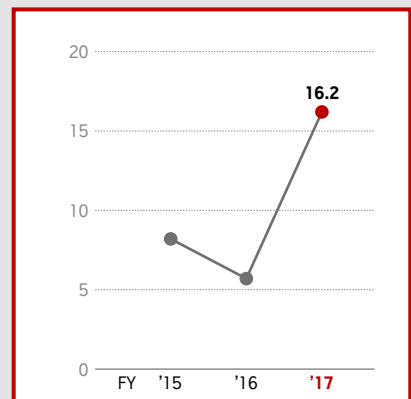
### Earnings per Share (basic)

(Yen)



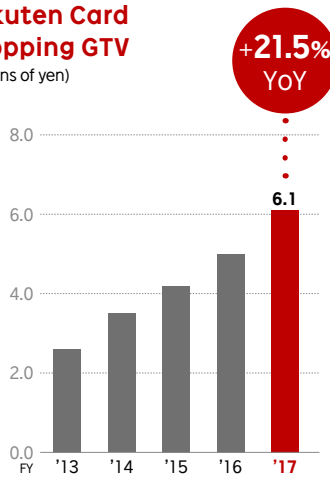
### Return on Equity

(%)



## Expansion of the FinTech Business

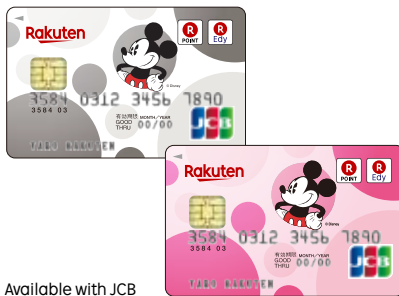
### Rakuten Card Shopping GTV (Trillions of yen)



Under its medium-term strategy, Vision 2020, Rakuten aims to become number one in the Japanese credit card market by increasing its credit card shopping transaction value to ¥7–8 trillion, and by expanding the cardholder base to 20 million. Rakuten Card’s credit card shopping transactions have increased by over 20% year on year in each of the past five quarters up to the first quarter of 2018, compared with an 8.8% average yearly growth rate for all credit card companies in Japan\*1. Already, this growth has resulted in Rakuten Card becoming the number one credit card company in terms of market share. It reached this milestone in fiscal 2017, when it became the first Japanese credit card company to achieve a card shopping transaction value of ¥6 trillion, based on cards issued by the company itself.

Several factors have helped Rakuten Card to win strong consumer support since the cards were introduced in July 2005. There are no annual membership fees for the regular card. The points return rate is excellent, and accumulated points can be redeemed for services from the Rakuten Group. Rakuten Card has ranked first in the credit card section of the Japanese Customer Satisfaction Index (JCSI) survey for nine consecutive years. This high level of customer satisfaction is driving rapid growth in the number of cardholders, which expanded from 14 million in April 2017 to over 15 million in January 2018, a growth of one million in just nine months.

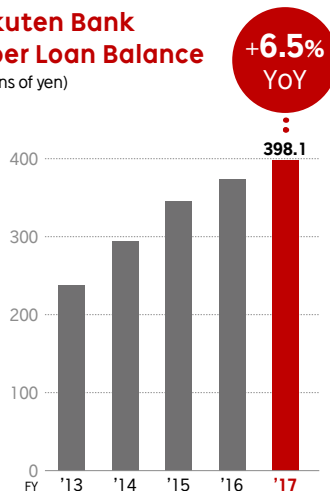
### Release of New Card Designs



In January 2015, Rakuten Card launched its first overseas credit card, the Taiwan Rakuten Card. By December 2017, the number of cards issued had reached approximately 370,000. Like cards issued in Japan, the Taiwan Rakuten Card offers attractive features that include an excellent points program. Transaction value is expanding steadily.

\*1 Source: Calculated using Ministry of Economy, Trade and Industry, Survey of Selected Service Industries, Table 4: Credit Card Industry)

### Rakuten Bank Super Loan Balance (Billions of yen)



### Steady Growth in Banking and Securities Business

Banking services are provided by the Rakuten Bank. Despite Japan’s negative interest policy, revenues and profits are expanding. Contributing factors include an expanding loan balance, which is reflected in increased interest income from loans, as well as cost reductions resulting from efficiency improvements. The balance of loans is expanding rapidly because of growth in housing loans and other areas. The Super Loan (card loan) balance showed a steady increase of 6.5% over the previous year’s level. Deposits increased by 27.8% year on year and broke through the ¥2 trillion barrier for the first time. The number of accounts rose by 540,000 to 6.23 million.

## Review of Operations in Fiscal 2017

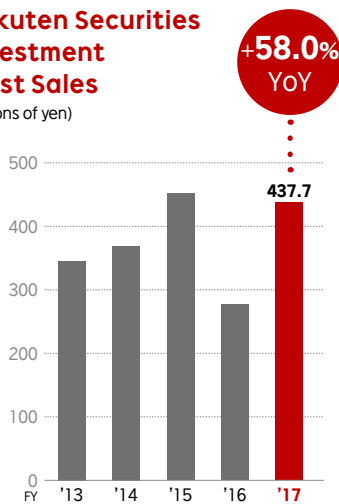
### Rakuten Securities

First securities company to allow purchase of investment trusts with points.

In the area of securities services, Rakuten Securities achieved steady growth in both revenues and profit with the impetus of a market recovery. It continued to use group synergies to enhance its services, including the creation of a system to allow customers to buy investment trusts using Rakuten Super Points. Service quality is also benefiting from the use of FinTech based on artificial intelligence (AI) and big data, including the introduction of robo-advisors. Rakuten Securities has also entered into the financial products brokerage business in partnership with regional banks. Its aim is to offer products that better match the needs of regional customers.

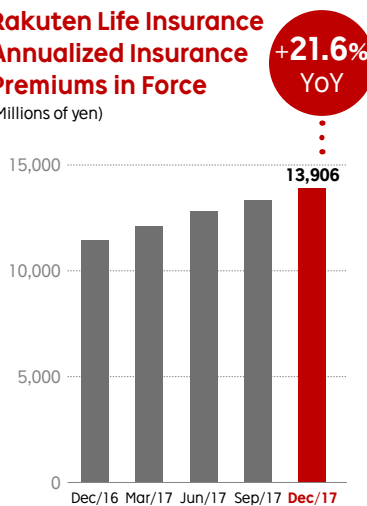
### Rakuten Securities Investment Trust Sales

(Billions of yen)



### Rakuten Life Insurance Annualized Insurance Premiums in Force

(Millions of yen)



### New Phase of Expansion for the Insurance Business

Insurance services are provided through Rakuten Life Insurance, which is enhancing its product line-up by introducing products suitable for internet sales, such as Rakuten Super 2000. It has also strengthened its direct marketing operations. These efforts are resulting in healthy growth. For example, the number of life insurance policies increased by 12.7% in fiscal 2017 to 357,000, while insurance premiums were 21.6% higher on an annualized basis at ¥13,900 million. In July 2017, Rakuten Life Insurance established the Rakuten Life Insurance Technology Laboratory to carry out research relating to insurtech, or IT-based insurance innovation. Rakuten Life Insurance is using (AI) and data analysis technology to improve the efficiency of insurance application processes and develop new products and services.

In March 2018, Rakuten moved into the non-life insurance business by acquiring Asahi Fire & Marine Insurance Co., Ltd. as a subsidiary. In March, Rakuten also diversified into pet insurance. Future plans call for further expansion of our line-up of insurance products, including the addition of other insurance categories, such as automobile insurance and fire insurance, and the development of new products based on synergies with Rakuten Group companies. Another goal is to improve corporate value by adding internet sales channels to the existing agency sales channel.

### Enhancement of Smartphone Settlement Services

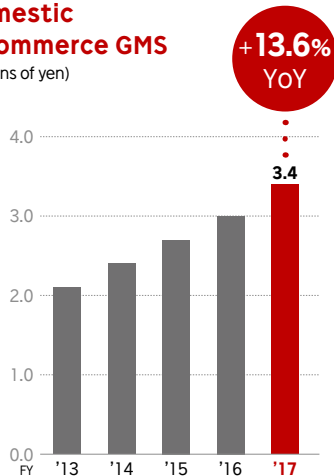
Rakuten is expanding the Rakuten Pay system with the aim of using its group assets to promote the use of highly convenient smartphone settlement services for both electronic and real-world commerce. As of December 2017, the system supports six international credit card brands, and 14 electronic money brands, including Rakuten Edy and Suica, as well as Android Pay™, and is available in several hundred thousand brick-and-mortar stores. We also provide the Rakuten Pay app, which allows users to make settlements via their smartphones simply by logging in with their Rakuten IDs.

**R** Pay



# Evolution of the E-commerce Business in Japan and Overseas

**Domestic E-commerce GMS**  
(Trillions of yen)



## Strong Expansion in Japan

In fiscal 2017, gross merchandise sales (GMS) from e-commerce in Japan amounted to ¥3.4 trillion, an increase of 13.6% over the previous year's result. The Super Point Up (SPU) program remained very popular with users. First introduced in 2016, this program increases the number of points that can be earned according to the way in which various Rakuten services are used. It contributes both to the recruitment of new users, and to the evolution of light users into loyal users. It has resulted in sustained growth in both the number of unique purchasers in the Rakuten ecosystem and the number of orders. By January 1, 2018, mobile GMS had reached 76.7% of total GMS. There has been particularly rapid growth in user numbers and GMS via the app. This is contributing to improvement in purchase frequency. The percentage of transactions settled in Rakuten Ichiba, the Japan marketplace, using the Rakuten Card has risen to 55.9% (as of December 2017). This growth is leading to increased use in the Rakuten ecosystem.

Rakuten Travel and Rakuten Beauty added to Super Point Up (SPU) program



Rakuten is implementing various initiatives to improve user convenience and merchant efficiency in Rakuten Ichiba. The Rakuten Pay system allows users to pay for items in all stores using the same settlement method. Rakuten has also started a delivery service in partnership with Japan Post Co., Ltd., allowing users to pick up their purchases at any of the approximately 20,000 post offices located throughout Japan. Additionally, merchants are able to dispatch goods at special rates under a comprehensive agreement between Rakuten and Japan Post. Rakuten is aiming for further improvement in user convenience through the development of its own delivery network.

## C2C Platform

# Rakuten ラクマ

## Flea Market Apps Making Sustained Progress

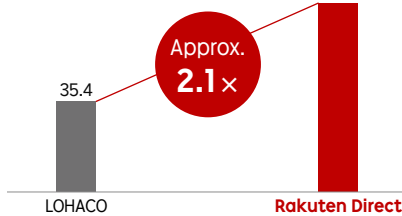
Rakuma is a flea market app designed specifically for consumer-to-consumer (C2C) trading. Promotion including television advertising, has paid dividends, and annualized GMS in this segment has grown to around ¥140 billion. In February 2018, we paved the way for further expansion by integrating the Rakuma and Fril platforms under the name "Rakuma."

## Review of Operations in Fiscal 2017

Rakuten Direct (Soukai Drug + Kenko.com) revenues are significantly ahead of their main competitor

### Revenue in FY 2017

(Billions of yen)



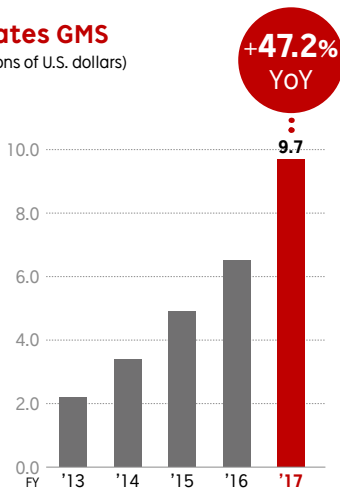
\* Revenue is adjusted for differences in accounting policies



A **Rakuten** Company

### Ebates GMS

(Billions of U.S. dollars)



### Strategic Alliance with Walmart



### Expansion of Direct Selling Business

In July 2017, Rakuten merged two subsidiaries, Kenko.com, Inc. and Soukai Drug Co., Ltd. Both companies were involved in e-commerce, specializing primarily in household goods, and both had stores in Rakuten Ichiba, the online shopping mall operated by Rakuten. Because their business models were extremely similar, it was decided to improve operating efficiency and further improve customer services in Rakuten Ichiba by merging the two organizations. Sales have expanded steadily since the merger, reaching approximately ¥74 billion in fiscal 2017.

### Strong Overseas E-commerce Operations

There has been rapid growth in the GMS of Ebates, which operates an online membership-based cash-back site primarily in the United States. In fiscal 2017, its GMS increased by 47.2% year on year to approximately ¥1 trillion (US\$9.7 billion). Its operating income was 24.1% higher at US\$64 million.

### Expansion of New Markets

In December 2017, Rakuten and BIC CAMERA Inc. established a new company to provide a more convenient shopping experience, especially in the area of consumer electronics. The new company began to provide the Rakuten BIC service in April 2018. The Rakuten BIC site combines Rakuten's site development know-how with fine-tuned service capabilities developed by BIC CAMERA in the consumer electronics field, including its logistics service and delivery services. While selling products directly via the internet, the new site provides enhanced convenience, including easy access to installation services.

In January 2018, Rakuten and Wal-Mart Stores, Inc. (Walmart) announced a strategic alliance in Japan and the United States. As part of this alliance, the two companies will establish a new company, which will jointly operate Rakuten Seiyu Netsuper with Seiyu GK, a Walmart subsidiary in Japan. The new business will start in the third quarter of fiscal 2018. In the United States, Walmart's brick-and-mortar stores and Walmart.com will commence exclusive sales of e-books, audio books, e-book readers, and other items supplied by Rakuten Kobo.

Rakuten and Walmart are among the world's leading e-commerce and retailing companies. They will use their respective strengths to create innovative service and expand their business operations in the Japanese and U.S. markets.

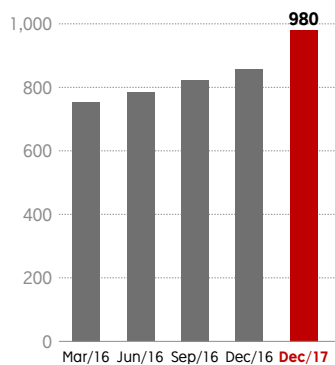
# Rapid Growth in Media & Communications and Advertising



## Mobile and Communications Business

At the end of December 2017, the number of unique IDs for the Viber free calling and messaging app were over 980 million, an increase of around 120 million over the figure a year earlier. In fiscal year 2017, Viber was selected as the official communications channel for FC Barcelona, and the number of followers on that team’s public account is now over five million. In addition to the public account, we are also distributing stickers depicting players. Synergy benefits from initiatives such as these are expected to result in further growth in the number of users. Revenue from Viber Out, a low-cost service for calling people other than Viber app users, is rising, and content sales are also up. In U.S. dollar terms, net sales in the fourth quarter of fiscal year 2017 increased by 123.3% over the same period in the previous year.

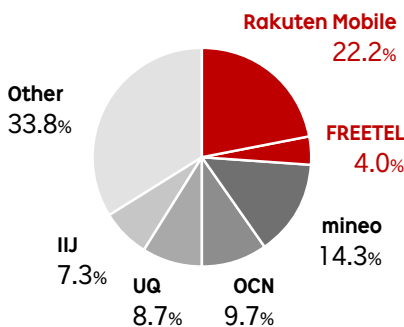
**Viber Unique IDs**  
(Millions of IDs)



In November 2017, the mobile virtual network operator (MVNO) services previously known under the FREETEL brand were taken over from Plus One Marketing Co., Ltd., and in January 2018, these services were integrated with MVNO services provided under the Rakuten Mobile brand. As of January 2018, the Rakuten MVNO business had 1.5 million subscribers, giving it the largest share of the Japanese MVNO market.

By the end of December 2017, the number of shops operated by Rakuten Mobile had reached 182. The majority of new contracts come through these stores. Going forward, we plan to expand the range of new products and accessories available in our real-world stores, and to offer more unique services, such as the ability to pay call charges using Rakuten Super Points.

**Rakuten Mobile and FREETEL Market Share**



## Entry into the Mobile Network Operator Business

On April 9, 2018, we received a bandwidth allocation for our fourth-generation (4G) mobile telephone system from the Ministry of Internal Affairs and Communications. The bandwidth is in the 1.7GHz frequency band (over 1,825MHz but not exceeding 1,845MHz). There has been criticism that the MNO market is showing clear signs of collaborative oligopoly by existing operators. By moving into the MNO market, Rakuten aims to maximize benefits for consumers and society in general by contributing to the creation of a fair and competitive MNO market through the provision of mobile telephone services that are more affordable and user friendly. We will invest in equipment and facilities in preparation for the launch of the service in October 2019.

Source: MMD Labo: "Survey of Trends in Usage of Low-Cost SIM Services" March 2018

## Review of Operations in Fiscal 2017



**kobo clara HD**

**Rakuten kobo**

### E-Book Business

The Rakuten Kobo e-book store and OverDrive, which distributes e-books to libraries, are both achieving steady growth. Content handled through Rakuten Kobo showed particularly strong growth with a year-on-year increase of 60.4%. Rakuten Kobo also enhanced the Kobo Aura ONE series of advanced reading tablets with the launch of the Kobo Aura ONE Comic Edition, large-capacity e-book reader, in Japan and the United States. In addition, Rakuten Kobo announced a new e-reader called the Clara HD that brings higher-end features down to a lower price point. The Clara HD features a 6-inch 300-ppi E Ink screen with ComfortLight Pro. The number of items lent to libraries by OverDrive also showed sustained growth, with a 17.5% increase over the previous year's level.

**Rakuten TV**

### Other Business Areas

The “Rakuten NBA Special” monthly subscription service was added to the Rakuten TV video streaming service. This service is based on Rakuten's status as the exclusive broadcasting and streaming partner for the American National Basketball Association (NBA) in Japan.

**Rakuten  
Data Marketing**

### Strengthening the Advertising Business

In August 2017, Rakuten and Dentsu Inc. established a new company, Rakuten Data Marketing Inc., to provide new types of marketing solutions. Rakuten Data Marketing, which commenced business operations in October 2017, will provide new types of marketing solutions by combining big data from Rakuten's approximately 95 million member IDs with the Dentsu Group's exclusive data and knowledge about the mass media and other areas. The environment for digital marketing is continually changing, leading to the diversification of contact points between consumers and businesses. Rakuten Data Marketing will offer marketing solutions based on full-funnel visualization, ranging from the proposal of corporate marketing strategies to target identification, recognition, and purchasing, using not only the Rakuten Group's big data resources, but also television audience data.

We are rapidly developing new business initiatives. For example, December 2017 saw the full-scale launch of the Rakuten Marketing Platform (RMP)—Brand Gateway, an advertising product that allows companies to establish brand sites in Rakuten Ichiba.

Rakuten sees the advertising business as a new core revenue source. We aim to increase annual sales from this area to ¥200 billion by fiscal year 2021.



**Kenji Hirose**  
Group Managing Executive Officer  
CFO&CRO  
(Chief Financial Officer & Chief Risk Officer)

# New Finance and Investment Strategies to Suit our Emerging Structure

## Supporting Growth through Financial Governance

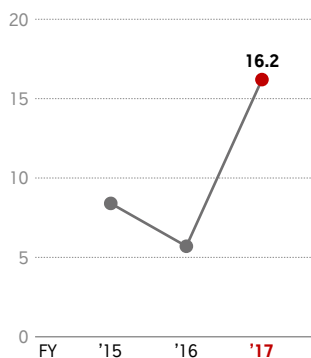
Rakuten is entering a new phase of investment in strategies targeted toward growth over the next 20 years, including entry into the mobile network operator business and the creation of a logistics network. In addition, we strengthen company-based organizational structure to further accelerate decision-making from July 1, 2018. After an interval of several years, I have returned to financial management with my appointment as CFO. While meeting the funding requirements for these strategic investments, I will work to improve corporate and shareholder value by enhancing our governance systems in the areas of financial management and accounting to match the needs of the company-system organizational structure.

## Financial Discipline and Business Portfolio Management

We use ROE, ROA, and the equity ratio as our three main indicators for group-wide financial management. ROE is obviously an essential indicator, however, because of Rakuten's involvement in the financial business, we need to ensure the safety of our capital and asset efficiency. Our ROE and ROA will both improve if we can increase our profit margin on sales, while appropriately controlling our total asset turnover ratio and applying a certain level of financial leverage. We therefore aim to keep these indicators in balance as we work toward future growth and development.

Going forward, we intend to divide up these company-wide indicators according to the characteristics of individual business units. Until now, our management of results for each business unit has been based primarily on revenues and profits. However, this has caused issues with asset allocation. As the focus has been on maximizing profit, some business units made investments without awareness of balance sheet issues. We are now considering the introduction of economic capital management. Specifically, we would manage our business performance based on our assumptions concerning capital and expected yields, allocated based on business risk characteristics. This is still at the concept stage, but if it is implemented, we will be better able to control our business portfolios by efficiently allocating our limited assets and capital to

### Return on Equity (%)





## CFO Message

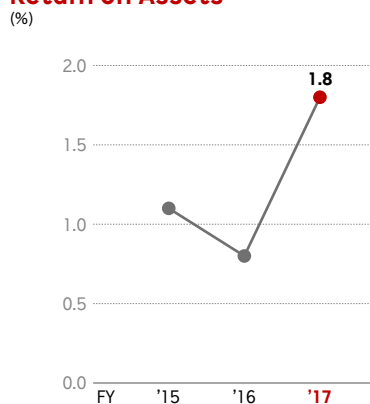
each business unit. This can be expected to result in further improvement in the overall corporate value of Rakuten Group.

### Financing Methods and Philosophy

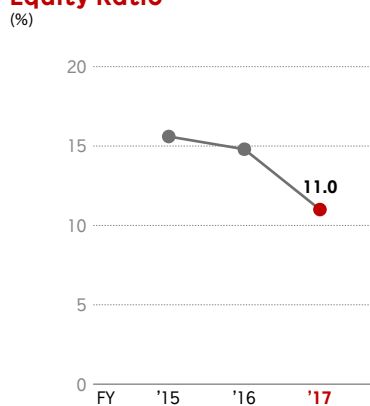
In the period until 2028, we plan to invest up to ¥600 billion in our mobile network operator business. As the parent company, Rakuten, Inc. will use hybrid finance to raise maximum of ¥200 billion which it will invest in Rakuten Mobile Network, Inc., the subsidiary that will operate the business. Rakuten Mobile Network will raise the remainder, using leasing, securitization finance, and other methods, under a non-recourse scheme in relation to the parent company.

For business areas other than the MNO business, we will be open to opportunities to invest in growth areas while maintaining said financial discipline. In addition to bank loans, bond issues, hybrid finance and other financing methods, we may also dispose of non-efficient assets as part of our business portfolio management. As it is necessary for us to maintain our credit rating at a certain level as a group to run our financial businesses, we will avoid excessive financial leverage.

#### Return on Assets



#### Equity Ratio



### Shareholder Returns

While we need to keep sufficient internal reserves to ensure capital safety and in preparation for strategic investment, we are also committed to paying stable and continuous dividends to shareholders. We completed the purchase of shares worth ¥100 billion in 2017. We will be open to making decisions about further buy-back schemes based on comprehensive assessments of ROE, ROA, and the equity ratio, as well as the market price of our shares.

### Dialogue with Investors: Lifetime Value as a Measure

Communication with investors has been a priority for Rakuten ever since it was listed, and we actively engage in IR activities. An important aspect of our dialogue with investors is the way in which we share our strategy and our thoughts about corporate value. We are aware of the difficulty of reflecting our unique business model, the Rakuten Ecosystem, in traditional valuation methods. For that reason, we are now considering the use of lifetime value (LTV) per user in our IR activities. We have always thought that the corporate value of the Rakuten Ecosystem is the sum of LTV, and we regularly measure LTV for each business unit. We would like to have discussions with investors about how our policies, such as new investments, affect corporate value through membership increases, and rises in the LTV of individual businesses.

## Corporate Governance

### Basic Approach to Corporate Governance

The Group is aiming to maximize corporate value, and has been implementing various measures as rigorous corporate governance is our highest priority.

#### Corporate Governance Report

[https://global.rakuten.com/corp/about/governance/corporate\\_governance.html](https://global.rakuten.com/corp/about/governance/corporate_governance.html)

The “Rakuten Group Code of Ethics” calls for confronting antisocial forces with a resolute attitude and for standing staunchly on the side of social justice for the greater good if inappropriate demands are made. In addition, the Rakuten Group Regulations and other internal regulations establish detailed methods for handling antisocial forces. We have fully communicated these methods internally and to Group companies and established related systems.

### Corporate Governance

#### 1. 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. In July 2018, the Company strengthened its company-based organizational structure to further accelerate decision-making.

#### 2. 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 seven Directors, including four 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.

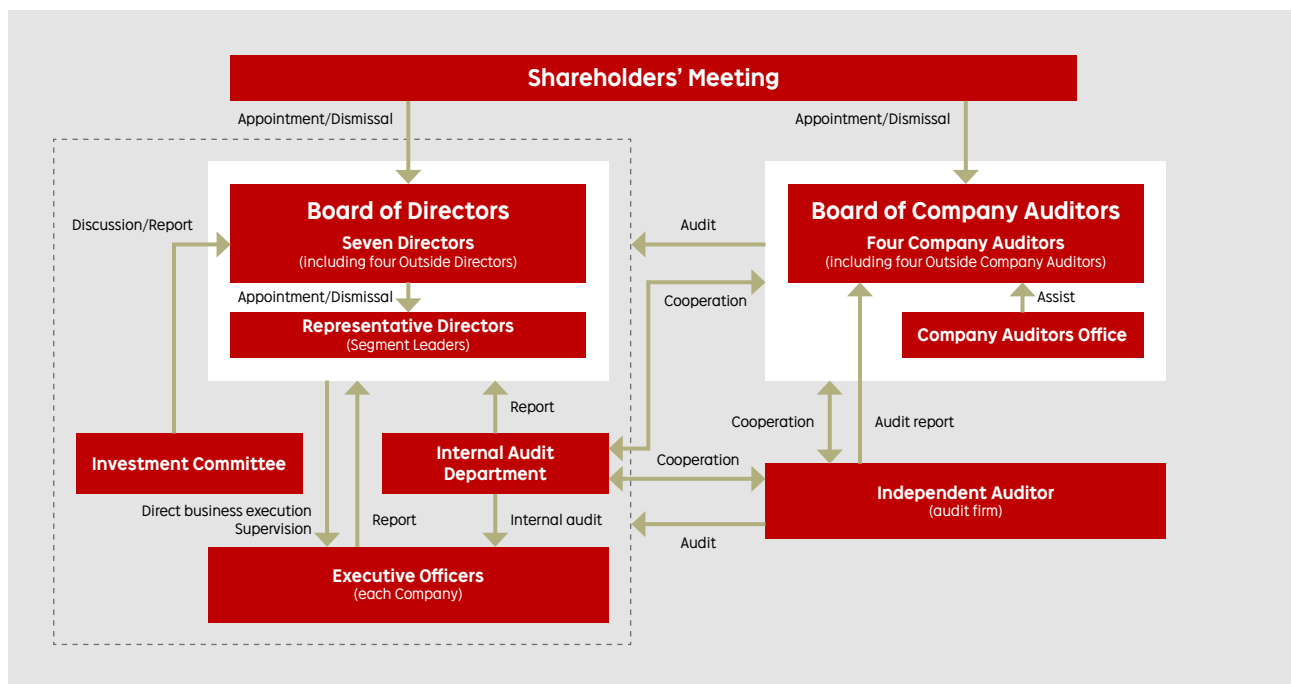
*(Company Auditors and the Board of Company Auditors)*

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

A two 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

## Corporate Governance



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.

### 3. 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.

#### 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.

#### Outside Directors and Outside Company Auditors

The Company's seven-member Board of Directors currently includes four 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 Status of Audit

Rakuten, Inc. has an audit contract with Ernst & Young ShinNihon LLC. The auditor conducts an audit based on the Companies Act and Financial Instruments and Exchange Act.

Please refer to the below Annual Securities Report submitted on March 30, 2017 for the details:

#### Annual Securities Report

[https://global.rakuten.com/corp/investors/documents/securities\\_report.html](https://global.rakuten.com/corp/investors/documents/securities_report.html)

#### Basic Policy on Eradicating Antisocial Forces

The "Rakuten Group Code of Ethics" calls for confronting antisocial forces with a resolute attitude and for standing staunchly on the side of social justice for the greater good if inappropriate demands are made. In addition, the Rakuten Group Regulations and other internal regulations establish detailed methods for handling antisocial forces. We have fully communicated these methods internally and to Group companies and established related systems.

## Management Team

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

(As of July 1, 2018)



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



**Masayuki Hosaka**  
Representative Director and  
Vice Chairman



**Yoshihisa Yamada**  
Group Executive Vice President



**Yasufumi Hirai**  
Group Executive Vice President



**Kentaro Hyakuno**  
Group Executive Vice President



**Makoto Arima**  
Group Executive Vice President



**Kazunori Takeda**  
Group Executive Vice President



**Masatada Kobayashi**  
Group Managing Executive  
Officer



**Akio Sugihara**  
Group Managing Executive  
Officer



**Kenji Hirose**  
Group Managing Executive  
Officer



**Koji Ando**  
Group Managing Executive  
Officer



**Yuji Kusunoki**  
Group Managing Executive  
Officer



**Terje Marthinussen**  
Group Managing Executive  
Officer



**Hiroyuki Nagai**  
Group Managing Executive  
Officer



**Hiroshi Takasawa**  
Group Managing Executive  
Officer



**Naho Kono**  
Group Managing Executive  
Officer



**Charles B. Baxter**  
Director



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



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



**Masahide Hiramoto**  
Company Auditor (Full-time)\*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.

## Management Team

## Outside Directors

(As of April 1, 2018)

	Year Appointed	Positions Held	Area of Expertise
 <p><b>Ken Kutaragi</b> Director *1,*2</p>	2010	<ul style="list-style-type: none"> <li>Former CEO and Honorary Chairman of Sony Computer Entertainment Inc.* Senior Technology Advisor of Sony Corporation</li> <li>President, Representative Director and CEO of Cyber AI Entertainment Inc.</li> <li>Outside Director of Nojima Corporation</li> </ul> <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 along with his extensive experience in corporate management. He has served as a director for eight years.</p>
 <p><b>Takashi Mitachi</b> Director *1,*2</p>	2016	<ul style="list-style-type: none"> <li>Group Senior Advisor of The Boston Consulting Group</li> <li>Outside Director of DMG MORI CO., LTD.</li> <li>Outside Director of Unicharm Corporation</li> <li>Outside Director of Tokio Marine Holdings, Inc.</li> </ul>	<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 two years.</p>
 <p><b>Jun Murai</b> Director *1,*2</p>	2012	<ul style="list-style-type: none"> <li>Dean of Faculty of Environment and Information Studies of Keio University</li> <li>Dean of the Graduate School of Media and Governance of Keio University</li> <li>Outside Director of BroadBand Tower, Inc.</li> </ul>	<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 six years.</p>
 <p><b>Youngme Moon</b> Director *1,*2</p>	2015	<ul style="list-style-type: none"> <li>Donald K. David Professor of Business Administration of Harvard Business School</li> <li>Director of Unilever N.V./Unilever PLC</li> </ul>	<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 three years.</p>

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

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



**We will contribute to the realization of a sustainable society through new initiatives, while remaining true to our founding philosophy.**

**Masatada Kobayashi**  
Group Managing Executive Officer  
Chief People Officer (CPO)

## Our Founding Philosophy

When Rakuten was established in 1997, the founding members, including CEO Mikitani and myself, aimed to revitalize Japan by providing regional businesses with an internet shopping platform that would expand their trading environment. Our theory was that revitalizing regional economies would empower Japan as a whole. We also believed that the companies that would lead the 21<sup>st</sup> century economy would not be the same large companies that supported Japan's growth in the 20<sup>th</sup> century, and that society would be transformed by venture companies like Rakuten. We achieved growth by bringing together people who shared our vision.

In 2017, we added the word "innovation" to our corporate philosophy but the past twenty years have been a time of continual innovation. When we established Rakuten, we aimed to bring happiness to people and prosperity to society by combining the existing mail order with internet technologies, which were considered innovative at the time. Today, as the internet has become a normal part of our everyday life, Rakuten employees are determined to come up with innovations that will transform society in a similar way.

## Sharing Ideas Globally

I was CEO of our regional headquarters in America and Asia. That experience taught me that our philosophy of making people happy and improving society is shared in every country. The goal of the founding members to revitalize local economies has remained unchanged, despite Rakuten's growth into a company with 15,000 employees worldwide.

Employees with diverse backgrounds and nationalities work together. We have created an environment that enables everyone, including employees caring for children or aging relatives, LGBT people, and people with disabilities, to enjoy their work and reach their full potential. We have made English the official language of our Group, reflecting the fact that a growing number of our activities are based overseas in countries that are world leaders in terms of sustainability, notably European and North American countries. I believe that a team rich in diversity will encourage innovation and enhance Rakuten's long-term competitiveness.

## SDG Initiatives

The Sustainable Development Goals (SDGs) were adopted by the United Nations in 2015 as a clear statement of common global targets for 2030. As a Global Innovation Company, the Rakuten Group is determined to contribute

## Rakuten Sustainability/ Sustainability Message

“Goals Beyond The Game”  
an awareness campaign in  
collaboration with FC  
Barcelona promoting the  
SDGs worldwide



to the achievement of the SDGs from a long-term perspective. The thinking behind the SDGs aligns with our own management philosophy and goals, and we are currently accelerating initiatives based on the use of Rakuten’s assets to solve various problems.

Of the 169 targets defined in the 17 SDGs, we intend to focus in particular on areas in which we can apply our strengths, and items that have a major impact on society and consumers. We are searching for effective initiatives among Rakuten’s wide-ranging business activities, such as internet shopping options that will offer consumers easy ways to choose sustainable or reusable products.

### Future Priority Areas

In 2017, we surveyed our internal and external stakeholders and engaged in dialogue with management team members with the aim of updating our priority areas in relation to sustainability. This process resulted in the identification of 16 items, including data security, quality, safety, and diversity. We also examined issues that are important to both Rakuten and society (see Page 31). Based on the results of this process, we identified four high-priority areas in which we will strengthen our sustainability activities: social innovation, sustainable consumption, local communities, and disaster relief/humanitarian aid.

One specific example of social innovation is the Rakuten Social Accelerator program for Rakuten employees to collaborate with entrepreneurs who are working to solve social issues. To address the sustainable consumption topic, we are creating an “Earth Mall” inside Rakuten Ichiba for users to easily purchase products that support more sustainable lifestyles. Under the local community category, we keep on making our “Rakuten IT School” program for high school students evolve. For humanitarian aid, we still provide platforms that can assist disaster relief efforts, notably the Clutch Special Charity Fund.

### Aiming for a Sustainable Society

Most Rakuten employees are people who joined the company because they shared our determination to empower society. My role as CPO is to turn the commitment and potential of these people into tangible results. We will create an environment in which employees will be able to express this commitment not only through company activities, but also through voluntary initiatives.

I believe that we have enormous potential to provide solutions for social issues through our various services. All Rakuten Group employees, including myself, share a continuing determination to take up new challenges without fear of failure. We will continue to work toward the creation of a sustainable society through new initiatives.

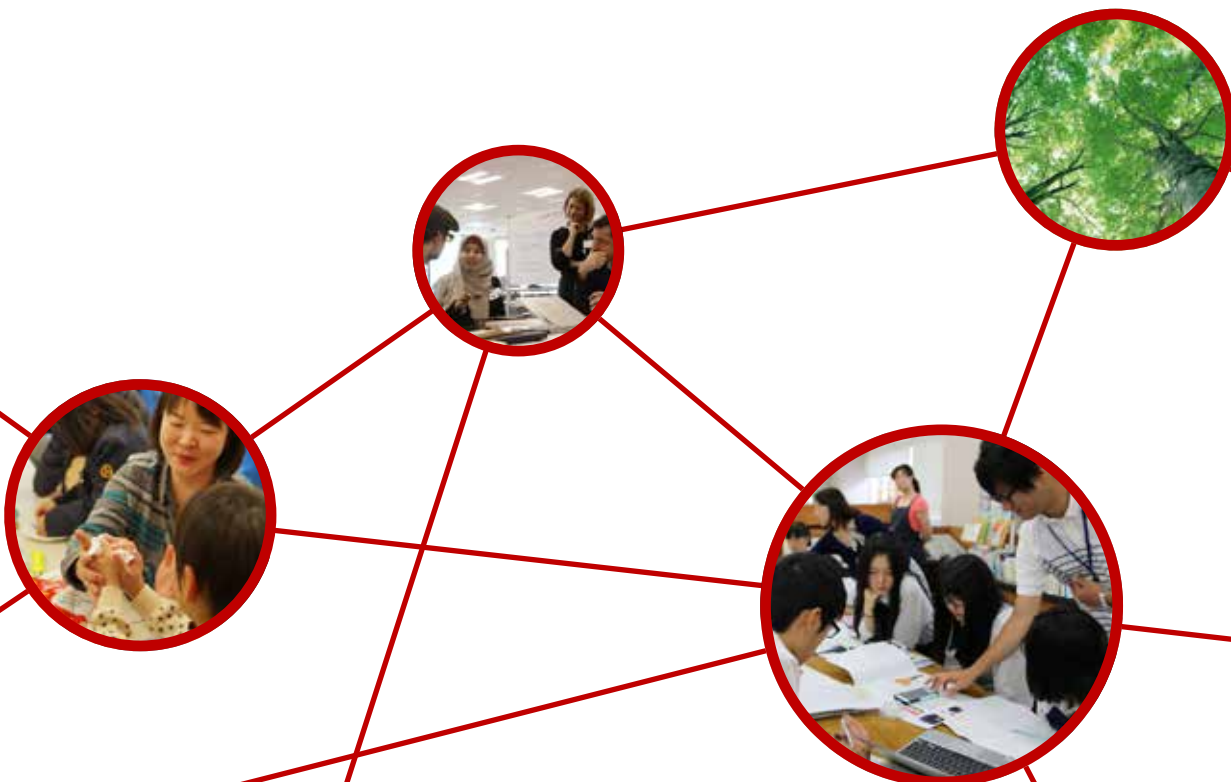
## Understanding Rakuten's Sustainability

### About Rakuten's Materiality

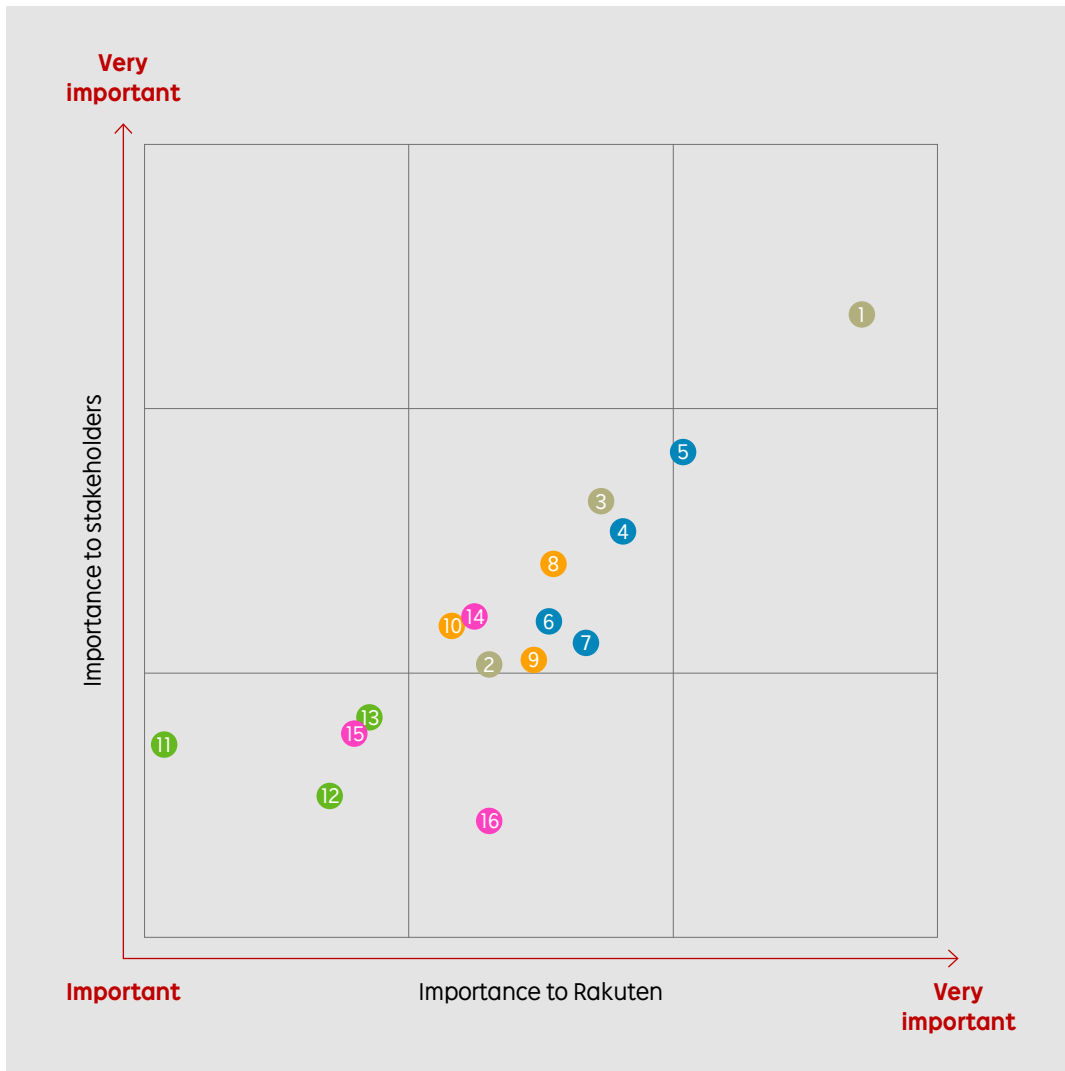
In 2017, we revised our sustainability priorities to incorporate the current expectations of stakeholders into our action plan, along international recommendations such as the GRI Sustainability Reporting Guidelines.

We submitted to stakeholders a survey list of 33 ESG (Environmental, Social and Governance) topics based on those recommendations, as well as Rakuten's activities and culture. For each topic, on the one hand, employees, business partners such as Rakuten merchants, and users evaluated the degree of responsibility of Rakuten to address those issues. On the other hand, our upper management evaluated their relevance to our business.

The survey resulted in a selection of 16 issues identified as higher priority by both our stakeholders and upper management. As shown on our materiality matrix, Rakuten and its stakeholders share the same priorities. First, quality and safety, notably in terms of information security, are at the heart of our service sustainability. Our services should be provided by a talented and diverse workforce, in collaboration with partners, demonstrating high ethical standards. The protection of the environment is also a concern that should be reflected in actions and reporting. As for our social contribution activities, support of future generations and for disaster-hit areas are two important aspects of local community empowerment initiatives.







### Sustainability priorities

#### ● Safety and quality

1. Data security and customer privacy
2. Service accessibility and affordability
3. Service safety and quality

#### ● Responsible practices

4. Anti-competitive practice prevention
5. Responsible information usage (labeling, marketing)
6. Sustainable consumption behaviors
7. Responsible supply chain

#### ● Talent attraction and development

8. Diversity and equality
9. Skill development and benefits
10. Workplace safety

### Important topics

#### ● Environment protection

11. Packaging
12. Climate change
13. Biodiversity

#### ● Local communities

14. Entrepreneurship and innovation
15. Disaster relief
16. Future generations

## Safe and Convenient Services



### Information Security Policy

The Rakuten Group, which provides a wide range of services from e-commerce to financial services over the internet, recognizes information assets—including personal information of its users and information system of hardware and software—as indispensable for implementing its business activities. Therefore, ensuring information security is one of our highest management issues.

#### 1. Establishment of the Information Security Management System

To build an Information Security Management System under a management team initiative and strive to enhance and maintain information security.

#### 2. Appropriate management of information assets

To recognize the importance of information assets held and evaluate risks and properly manage these assets.

#### 3. Establishing regulations, etc. for ensuring information security

To establish regulations, etc. for ensuring information security, and thoroughly extend these through all related persons.

#### 4. Compliance with laws and norms

To be compliant with laws and norms related to information security.

#### 5. Continuous improvement

To implement audits on a regular basis and continuously improve the Information Security Management System.



<https://global.rakuten.com/corp/about/governance/security.html>

## Safe and Convenient Services

### Initiatives for Information Security Enhancement

Rakuten is constantly strengthening its information security measures to meet international standards and meet society's expectations. Besides efforts already undertaken to obtain accreditations such as the ISO/IEC 27001 ISMS Certification and Privacy Mark Certification, Rakuten took a significant step forward by adopting a set of global privacy protection standards referred to as "Binding Corporate Rules," which were approved by the European Union data protection authorities in December 2016. These strict procedures assure our customers, merchants and employees that their personal information is protected according to the highest standards, regardless of where the data resides.

In August 2017, Rakuten launched its Privacy Center, a set of webpages that gather together the Binding Corporate Rules in different languages, the privacy policies of the Group's services, as well as a help desk to answer the concerns of its stakeholders.



 <https://corp.rakuten.co.jp/privacy/en/>

### Quality Policies

At Rakuten Group, we constantly strive to improve the quality, including the reliability, legality, usefulness and convenience, of our products and services, in order to realize our goal of maximizing customer satisfaction.

1. Provide safe products and services to our customers.
2. Reliably deliver the products and services promised to our customers.
3. Provide products and services that comply with the applicable laws and regulations of the jurisdiction in which they are offered, whether they be in Japan or overseas.
4. Provide products and services that are beneficial to our customers.
5. Provide convenient, user-friendly products and services to our customers.

 <https://global.rakuten.com/corp/about/governance/quality.html>

### Initiatives for Quality Improvements

In order to build a relationship of trust with customers and other stakeholders, all employees are required to regularly receive compliance training on conducting business operations with high ethical standards. This includes training on acts related to internet businesses, such as the Japanese Act Against Unjustifiable Premiums and Misleading Representations.

Throughout 2017, Rakuten's businesses carried out various initiatives to enhance the quality of service. Among them, the extension of the operation hours and capacity of our call centers, as well as the introduction artificial intelligence with chatbots have greatly improved accessibility and real-time response to customers' inquiries.

## Workspace and Human Resources



# **R** Crimson House

The internet is a global and very dynamic industry. To remain competitive and provide innovative services that appeal to a wide audience, create a work environment that will attract and allow the brightest talents with unique perspectives, to working and growing together is key.

## An Open Workplace where People and Ideas Thrive

In 2015, the head office of Rakuten moved to Futako Tamagawa, a suburb of Tokyo. Open offices, open meeting spaces with video conference systems, cafeterias with free meals, fitness gym...the new space provides the employees with an environment that improves productivity and efficiency while supporting a healthy lifestyle. Domestic and overseas branch offices share the same idea of openness for people and ideas to thrive.



 <https://global.rakuten.com/corp/about/map/crimsonhouse/>

## Workspace and Human Resources

### Our Core Strategy: Diversity

Diversity is one of Rakuten's key corporate strategies. We want to hire the brightest talents from around the world, with unique and different perspectives to best serve our audiences with innovative services around the world.

Employees from 77 countries worked at Rakuten's offices located in Japan in 2017. English has been Rakuten's official language since 2010, and cross-cultural training programs promote constructive understanding of differences. Our work environment also serves the needs of a diverse employee base: Halal-compliant and vegetarian meals in the cafeteria, a prayer room, etc..

Special efforts are also made to balance careers and parenting demands. Rakuten Crimson House has an in-house childcare center and a nursing, as well as arrangements with a company that provides a babysitting service for sick children. In 2017, Rakuten was selected as an index component for the MSCI Japan Empowering Women Index.

Rakuten, Inc. has revised its definition of "spouse" in its internal policies so that same-sex partners of all genders are eligible for company benefits. As of June 2016, an internal LGBT network provides information sharing and support for LGBT employees and allies. Lectures and study sessions were also held to raise awareness and address issues affecting LGBT people.

Rakuten Socio Business, Inc. was founded primarily to provide a good work environment for people with disabilities. The employees perform data maintenance, business improvement, and website maintenance—key tasks for an internet company. Since November 2014, Rakuten's disability employment rate has exceeded mandates.



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

### Talent Development

Career development was also reinforced in 2017. As all employees review their performance and career orientation twice a year. Managers are now encouraged to conduct one-on-one meetings with their team members on a more regular basis to discuss potential concerns, take new actions and allow them to grow personally, which in turn improves team communication and makes the organization stronger.

### Number of nationalities represented

77

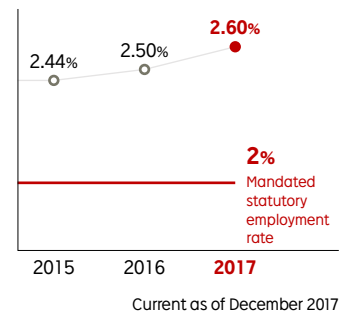
### Women as a percentage of managers

21%

### Women as a percentage of all employees

38%  
(2017)

### Disability employment rate



## Rakuten and the Environment



Rakuten and the environment are clearly connected. From the variety of products sold on Rakuten Ichiba to the travel destinations promoted on Rakuten Travel, all depend on the richness of biodiversity. That is why Rakuten is committed to protect nature and biodiversity through its services and social contribution activities.

## Optimize Electricity Usage

As the Great East Japan Earthquake accelerated the transformation of the energy sector, Rakuten Energy was launched in 2013 to add to Rakuten's ecosystem a smart and clean electricity alternative. With services such as "i-sharing," its customers, including hotels and merchants with Rakuten Travel and Rakuten Ichiba, have access to an optimized electricity supply, from low-cost and renewable sources.



Yatsugatake Grace Hotel in the Japanese Alps, running on 100% renewable energy from Rakuten Energy

## Rakuten and the Environment

### Rakuten Energy Trading System to Encourage Trade in J-Credits

In 2017, Rakuten Energy started a new service, Rakuten Energy Trading System (REts), a J-Credit trading system, in cooperation with CARBON VALUE CREATING & CONSULTING Co., Ltd., and GLOBAL ENGINEERING Co., Ltd. Certified by the Japanese government, J-Credits are carbon offset credits that can be earned when corporations reduce emissions by saving energy, increase absorption of greenhouse gases by managing forests, and other activities. To date, corporations wishing to trade their earned J-Credits could choose between conventional bidding or direct trading systems. REts brings greater transparency to the J-Credit trading process by enabling traders to clarify credit value and trade volume in real time. With REts, Rakuten hopes to stimulate the megawatt (power saving) market.



### Biodiversity Protection Activities in Rakuten's Forest

The Rakuten Golden Eagles' mascot "Clutch" is modeled on the golden eagle, a bird of prey that is today on the verge of extinction in Japan. Changing interactions between humans and forests have indeed greatly affected the bird's habitat. In 2014, Rakuten and numerous partners started the "Rakuten's Forest" initiative to save the golden eagle.

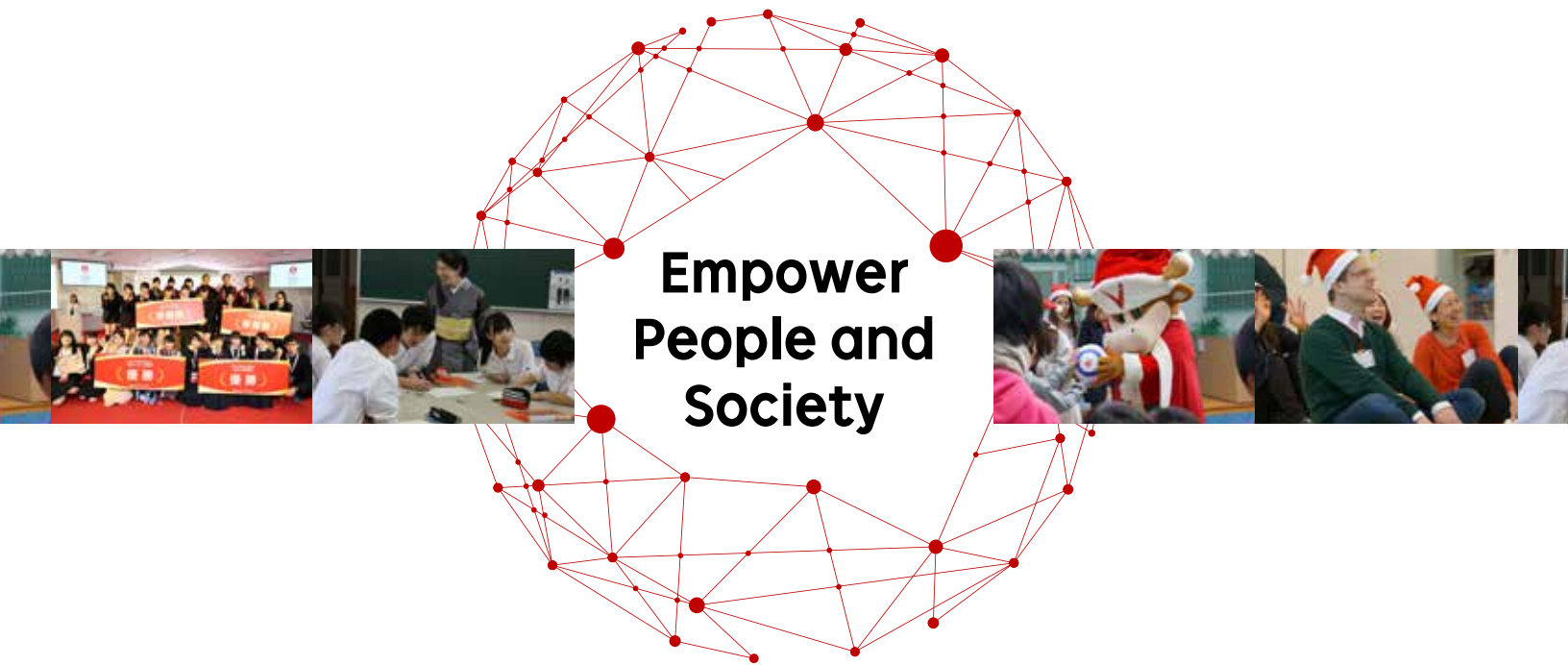
Today, Rakuten's Forest is active in biodiversity projects across the whole country. Together with universities, NPOs, and local governments, as well as merchants and hoteliers, forestry management activities are conducted to create habitats where diverse creatures including golden eagles and other endangered species can thrive. Through awareness activities, notably for children, Rakuten's Forest also conveys the need for nature conservation as an important part of the culture and charm of local communities.



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



## Social Contribution Activities



From the day Rakuten was founded, we have dedicated ourselves to empowering people and society. This principle has driven the growth and development of our business, and is reflected in our social contribution activities. We address substantial issues using our services and know-how, hand in hand with all the people who are involved in the Rakuten Group: business partners, customers, governments, and NPOs.

### Innovation with High School Students

Rakuten IT School is a pro bono program giving the opportunity to high school students to have a hands-on experience of what e-commerce is. During a whole year, each team is in charge of retailing one product or accommodation plan. By actually engaging in sales on Rakuten Ichiba and Rakuten Travel, students get a taste of the excitement and difficulties that come with running a business and glimpse possibilities of the internet that may inspire their future career.

Every month, our employees and business partners—local merchants and hoteliers—visit schools across Japan to give lectures and mentor the student teams. How to choose a target customer? What





## Social Contribution Activities

words and illustrations will catch their attention? With the advice of these professionals, students decide how to best convey the value of their offer. At the end of the year, teams from the whole country gather in Tokyo for a Rakuten IT School presentation competition to determine the best in Japan that year.

In 2017, students in 55 schools created in total 175 product pages and 149 accommodation plans. Over the 10 years of the project, nearly 7,000 students have graduated from Rakuten IT School.

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

### Empower Female Entrepreneurs

Willa is a French incubator, which in 12 years, has already helped over 200 startups headed by female founders. Since late 2016, Rakuten PriceMinister has supported gender equality for entrepreneurs, too with mentorship programs about big data, legal topics, SEO, product management, communications, and others. From one-time advice to longer-term collaboration, various Rakuten employees have shared their time and knowledge. Besides the satisfaction of seeing startups grow, the initiative also gives them the chance to renew their entrepreneurial spirit by being in touch with rapid-growth-oriented actors with disruptive ideas.

### Support Foster Home Children

In Japan, about 30,000 children live in foster homes and away from their families for different reasons, such as child abuse. On turning 18, they have to leave their foster homes and become independent. The NPO Bridge For Smile helps them face new issues, such as renting an apartment or getting ready for university, by organizing information seminars and giving them daily necessities. Since 2016, the NPO has used Rakuten Ichiba as a donation platform to match the needs of the teenagers with the products given by individuals and corporates. By making this process much more efficient, Bridge For Smile is able to help more children.

In addition, every year since 2014, Rakuten employees volunteer to visit foster homes during the Christmas holiday season to make them presents and spend some special time.

 [https://global.rakuten.com/corp/sustainability/childrens\\_home/](https://global.rakuten.com/corp/sustainability/childrens_home/)

Number of graduates

**6,955**

Total number of schools

**245**

Total lecture time

**3,062  
hours**



## Social Contribution Activities

### Helping out NPOs

In the US, teams of Rakuten around the country volunteer to give back to society. From Crimson House West, employees regularly take part in activities organized by NPOs like helping low-income families and homeless people or restoring natural habitats. In Rakuten Marketing, one day off per year can be taken to join such initiatives.



### Making and Collecting Donations Around the Globe

In Japan, the Rakuten Clutch Special Charity Fund is an online donation system integrated with Rakuten's ecosystem. It was born after the 2011 Great East Japan Earthquake, to answer requests from customers willing to help people in need. In a few clicks, donations can be made using Rakuten Super Points, credit cards offered by Rakuten Card, and bank transfers with Rakuten Bank. In 2017, donations were collected for the victims of natural disasters in Japan and Peru and for a fund supporting NPOs fighting against child poverty in Japan. The total amount of donations collected to date has reached ¥943,623,655.



© Rakuten Eagles

Rakuten Recipe has also built a donation program to engage its customers. For every two recipe reviews written on its website, a donation is made to the NPO Table for Two, which will be used to provide one meal to a child in a developing country.

As of January 2018, Rakuten Recipe donated an amount equivalent to 643,378 meals.

### Rakuten Recipe X TABLE FOR TWO



## Social Contribution Activities

In France, Rakuten PriceMinister partners every year with the NPO Handidon to collect funds for fighting discrimination against handicapped people. By designing and opening an online store for free on its online e-commerce platform, PriceMinister gives a way for the organization to easily sell raffle tickets and gather several thousand euros.

In 2017, PriceMinister opened and promoted by e-mail a solidarity store for a second French NGO, AFM-Téléthon, where users can use and receive Super Points while donating to research on myopathy.

December is the month of giving. In Germany, Rakuten.de held a special four-day campaign during which customers could save up to 12% on selected products, while 5% of the sales are donated to the Lukas Podolski Foundation. As a result, the Foundation created by the football star who once represented Germany and now plays for Vissel Kobe, received a total of €120,000 to support disadvantaged children.

In the U.S., Ebates and the Rakuten Group held a matching crowdfunding donation campaign to support the American Red Cross assistance to victims of Hurricanes Irma and Harvey. In August, teams from Rakuten Crimson West joined Ebates Cares for the first time in their annual backpack drive. Employee contributions of \$1,100 purchased 120 backpacks full of school supplies, donated through City Team to families in the San Juan, Puerto Rico neighborhood of San Francisco, where the poverty rate for youth is close to 12%. Finally, to end the year, Rakuten brightened up the Christmas day of children in need by inviting them to watch the Golden State Warriors play.



## Awards and Recognitions

### Dow Jones Sustainability Index

In 2017, Rakuten was selected for the second consecutive year as an index component for the Dow Jones Sustainability Asia Pacific Indices.



### MSCI Japan Index

Rakuten was selected as an index component for the MSCI Japan ESG Leaders Index and the MSCI Japan Empowering Women Index which MSCI launched in June 2017.



### Work with PRIDE Index

In 2017, Rakuten achieved Gold Level in the PRIDE Index of the organization “work with Pride” which promotes LGBT diversity-management initiatives in Japan.



### B Corporation Certification – OverDrive

OverDrive was awarded the B Corporation Certification, which recognizes for-profit companies meeting rigorous social, workforce, and environmental standards.



### Japanese Consumer Satisfaction Index – Rakuten Card

Rakuten Card earned top score in the credit card category of the FY2017 Japanese Consumer Satisfaction Index (JCSI) Survey. This marked the ninth consecutive year.

### Mobile Banking Application of the Year – Rakuten Bank

Rakuten Bank received the Mobile Banking Application of the Year in Asia Pacific Award for 2017, recognizing the quality of its innovative digital features.

### World's Best Consumer Digital Banks Awards – Rakuten Bank

Global Finance was named Rakuten Bank as the winner of the World's Best Consumer Digital Banks Award for Japan in 2017.

## Non-financial Data

### Global Company

(Rakuten Group, as of Dec. 2017)

		2015	2016	2017
	<b>Total</b>	<b>12,981</b>	<b>14,134</b>	<b>14,845</b>
Number of employees by region	Japan	8,991	9,908	10,279
	Asia Pacific	792	973	1,040
	Americas	2,075	2,194	2,430
	EMEA	1,123	1,059	1,096
Number of employees by contract	Permanent	11,822	12,885	13,753
	Temporary	1,159	1,249	1,092

### Employee Diversity

(Rakuten Inc., as of Dec. 2017)

		2015	2016	2017
Number of employees	<b>Total</b>	<b>5,298</b>	<b>5,741</b>	<b>6,030</b>
	Male	3,318	3,585	3,757
	Female	1,980 (37%)	2,156 (38%)	2,273 (38%)
	Foreigner	1,038	1,279	1,413
Number of managers	<b>Total</b>	<b>1,448</b>	<b>1,657</b>	<b>1,889</b>
	Male	1,176	1,302	1,484
	Female	272 (19%)	355 (21%)	405 (21%)
	Foreigner	120	170	216
Average age		33.3	33.7	34.0
Number of employees by age group	Under 30	2,022	2,033	2,077
	30-49	3,050	3,606	3,806
	50 and over	66	102	147
Average year of service		4.5	4.6	4.8
Employment rate of people with disabilities		2.44%	2.50%	2.60%

### Work-Life Balance

(Rakuten Inc., as of Dec. 2017)

		2015	2016	2017
Employees entitled to parental leave	<b>Total</b>	<b>412</b>	<b>399</b>	<b>310</b>
	Male	294	298	238
	Female	118	101	72
Eligible employees that took parental leave	Male	6%	9%	11%
	Female	82%	86%	97%
Employees that returned to work after parental leave	Male	100%	81%	96%
	Female	95%	96%	92%
Paid vacation	Days granted	13.5	14.2	15.8
	Days taken	9.6	10.0	11.0
	Rate	71.1%	70.4%	69.6%

### Safe Workplace

(Rakuten Inc., as of Dec. 2017)

		2015	2016	2017
Injury rate		0.2%	0.3%	0.3%
Occupational disease rate		0%	0%	0%
Number of fatalities		0	0	0

### Environmental Data

(Offices and warehouses in Japan)

		2015	2016	2017
Greenhouse Gas Emissions(t-CO <sub>2</sub> eq)	<b>Total</b>	<b>7,623</b>	<b>7,567</b>	<b>8,589</b>
	Scope 1	174	300	304
	Scope 2	7,449	7,266	8,285
Energy Consumption (MWh)		14,500	14,823	17,092

## Consolidated Financial Statements

### Consolidated Statements of Financial Position

	Millions of Yen	
	December 31, 2016	December 31, 2017
<b>Assets</b>		
Cash and cash equivalents	¥ 548,269	¥ 700,881
Accounts receivable — trade	117,088	128,057
Financial assets for securities business	1,120,684	1,889,157
Loans for credit card business	1,014,708	1,223,195
Investment securities for banking business	157,315	203,161
Loans for banking business	585,800	753,419
Investment securities for insurance business	18,071	21,803
Derivative assets	21,813	19,978
Investment securities	173,076	261,588
Other financial assets	137,678	176,427
Investments in associates and joint ventures	41,130	54,481
Property, plant and equipment	53,271	73,171
Intangible assets	506,087	526,862
Deferred tax assets	25,681	36,472
Other assets	84,001	115,647
<b>Total assets</b>	<b>4,604,672</b>	<b>6,184,299</b>
<b>Liabilities</b>		
Accounts payable — trade	181,279	202,874
Deposits for banking business	1,505,946	1,946,142
Financial liabilities for securities business	1,059,639	1,790,388
Derivative liabilities	6,598	6,918
Bonds and borrowings	711,104	1,015,781
Other financial liabilities	297,489	351,779
Income taxes payable	12,674	13,264
Provisions	65,235	76,104
Policy reserves and others for insurance business	21,474	22,050
Deferred tax liabilities	18,272	30,541
Other liabilities	42,472	45,050
<b>Total liabilities</b>	<b>3,922,182</b>	<b>5,500,891</b>
<b>Equity</b>		
<b>Equity attributable to owners of the Company</b>		
Common stock	204,562	205,924
Capital surplus	211,785	217,185
Retained earnings	216,866	320,397
Treasury stock	(3,627)	(103,616)
Other components of equity	52,805	43,291
<b>Total equity attributable to owners of the Company</b>	<b>682,391</b>	<b>683,181</b>
Non-controlling interests	99	227
Total equity	682,490	683,408
<b>Total liabilities and equity</b>	<b>4,604,672</b>	<b>6,184,299</b>

## Consolidated Statements of Income

	Millions of Yen	
	Year ended December 31, 2016	<b>Year ended December 31, 2017</b>
<b>Continuing operations</b>		
Revenue	¥ 781,916	¥ 944,474
Operating expenses	677,063	837,550
Other income	5,323	51,096
Other expenses	6,305	6,009
Impairment loss	25,359	2,667
Operating income	78,512	149,344
Financial income	256	410
Financial expenses	3,501	3,323
Share of loss of associates and joint ventures	809	8,349
Income before income tax	74,458	138,082
Income tax expense	36,023	27,594
<b>Net income</b>	<b>38,435</b>	<b>110,488</b>
<b>Net income attributable to:</b>		
Owners of the Company	38,429	110,585
Non-controlling interests	6	(97)
<b>Net income</b>	<b>38,435</b>	<b>110,488</b>
Yen		
<b>Earnings per share attributable to owners of the Company:</b>		
Basic	¥26.96	¥80.03
Diluted	26.74	79.28

## Consolidated Statements of Comprehensive Income

	Millions of Yen	
	Year ended December 31, 2016	Year ended December 31, 2017
<b>Net income</b>	<b>¥ 38,435</b>	<b>¥110,488</b>
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to net income:</b>		
Gains (losses) on financial assets measured at fair value through other comprehensive income	1,238	(1,849)
Income tax effect of gains and losses on financial assets measured at fair value through other comprehensive income	(495)	14
Remeasurement of policy reserves and others for insurance business based on current market interest rates	(3,264)	936
Income tax effect of remeasurement of policy reserves and others for insurance business based on current market interest rates	906	(265)
Share of other comprehensive income of associates and joint ventures	6	5
<b>Total items that will not be reclassified to net income</b>	<b>(1,609)</b>	<b>(1,159)</b>
<b>Items that will be reclassified to net income:</b>		
Foreign currency translation adjustments	(16,817)	(8,053)
Gains (losses) on cash flow hedges recognized in other comprehensive income	(304)	(890)
Income tax effect of gains or losses on cash flow hedges recognized in other comprehensive income	116	143
Gains (losses) on cash flow hedges reclassified from other comprehensive income to net income	423	612
Income tax effect of gains or losses on cash flow hedges reclassified from other comprehensive income to net income	(137)	(141)
Share of other comprehensive income of associates and joint ventures	(1)	(19)
<b>Total items that will be reclassified to net income</b>	<b>(16,720)</b>	<b>(8,348)</b>
<b>Other comprehensive income, net of tax</b>	<b>(18,329)</b>	<b>(9,507)</b>
<b>Comprehensive income</b>	<b>20,106</b>	<b>100,981</b>
<b>Comprehensive income attributable to:</b>		
Owners of the Company	20,099	101,078
Non-controlling interests	7	(97)
<b>Comprehensive income</b>	<b>20,106</b>	<b>100,981</b>



## Consolidated Statements of Changes in Equity

	Millions of Yen											
	Other components of equity											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	Remeasurement of policy reserves and others for insurance business based on current market interest rates	Total other components of equity	Total equity attributable to owners of the Company	Non-controlling interests	
As of January 1, 2016	¥203,588	¥208,677	¥176,834	¥(3,627)	¥40,477	¥36,581	¥(486)	¥ -	¥76,572	¥662,044	¥1,969	¥664,013
Cumulative effects of changes in accounting policies	-	-	5,877	-	-	-	-	(1,810)	(1,810)	4,067	-	4,067
Adjusted balance	203,588	208,677	182,711	(3,627)	40,477	36,581	(486)	(1,810)	74,762	666,111	1,969	668,080
<b>Comprehensive income</b>												
Net income	-	-	38,429	-	-	-	-	-	-	38,429	6	38,435
Other comprehensive income, net of tax	-	-	-	-	(16,819)	749	98	(2,358)	(18,330)	(18,330)	1	(18,329)
Total comprehensive income	-	-	38,429	-	(16,819)	749	98	(2,358)	(18,330)	20,099	7	20,106
<b>Transactions with owners</b>												
<b>Contributions by and distributions to owners</b>												
Issuance of common stock	974	975	-	-	-	-	-	-	-	1,949	-	1,949
Cash dividends paid	-	-	(6,410)	-	-	-	-	-	-	(6,410)	-	(6,410)
Reclassification from other components of equity to retained earnings	-	-	3,627	-	-	(3,627)	-	-	(3,627)	-	-	-
Purchase of treasury stock	-	-	-	(0)	-	-	-	-	-	(0)	-	(0)
Others	-	4,344	(1,491)	-	-	-	-	-	-	2,853	-	2,853
Total contributions by and distributions to owners	974	5,319	(4,274)	(0)	-	(3,627)	-	-	(3,627)	(1,608)	-	(1,608)
<b>Changes in ownership interests in subsidiaries</b>												
Issuance of common stock	-	-	-	-	-	-	-	-	-	-	181	181
Acquisitions and disposals of non-controlling interests	-	(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	(4,274)	(0)	-	(3,627)	-	-	(3,627)	(3,819)	(1,877)	(5,696)
As of December 31, 2016	¥204,562	¥211,785	¥216,866	¥(3,627)	¥23,658	¥33,703	¥(388)	¥(4,168)	¥52,805	¥682,391	¥99	¥682,490
<b>Comprehensive income</b>												
Net income	-	-	110,585	-	-	-	-	-	-	110,585	(97)	110,488
Other comprehensive income, net of tax	-	-	-	-	(8,072)	(1,830)	(276)	671	(9,507)	(9,507)	0	(9,507)
Total comprehensive income	-	-	110,585	-	(8,072)	(1,830)	(276)	671	(9,507)	101,078	(97)	100,981
<b>Transactions with owners</b>												
<b>Contributions by and distributions to owners</b>												
Issuance of common stock	1,362	1,362	-	-	-	-	-	-	-	2,724	-	2,724
Cash dividends paid	-	-	(6,419)	-	-	-	-	-	-	(6,419)	-	(6,419)
Reclassified from other components of equity to retained earnings	-	-	7	-	-	(7)	-	-	(7)	-	-	-
Purchase of treasury stock	-	-	-	(100,000)	-	-	-	-	-	(100,000)	-	(100,000)
Others	-	4,064	(642)	11	-	-	-	-	-	3,433	-	3,433
Total contributions by and distributions to owners	1,362	5,426	(7,054)	(99,989)	-	(7)	-	-	(7)	(100,262)	-	(100,262)
<b>Changes in ownership interests in subsidiaries</b>												
Issuance of common stock	-	-	-	-	-	-	-	-	-	-	98	98
Acquisitions and disposals of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	(26)	-	-	-	-	-	-	-	(26)	127	101
Total changes in ownership interests in subsidiaries	-	(26)	-	-	-	-	-	-	-	(26)	225	199
Total transactions with owners	1,362	5,400	(7,054)	(99,989)	-	(7)	-	-	(7)	(100,288)	225	(100,063)
As of December 31, 2017	205,924	217,185	320,397	(103,616)	15,586	31,866	(664)	(3,497)	43,291	683,181	227	683,408

## Consolidated Statements of Cash Flows

	Millions of Yen	
	Year ended December 31, 2016	Year ended December 31, 2017
<b>Cash flows from operating activities</b>		
Income before income tax	¥ 74,458	¥ 138,082
Depreciation and amortization	44,257	54,376
Impairment loss	25,359	2,667
Other loss (income)	11,133	(25,076)
Increase in operating receivables	(10,702)	(9,242)
Increase in loans for credit card business	(180,741)	(208,144)
Increase in deposits for banking business	139,162	439,818
Decrease (increase) in call loans for banking business	23,000	(25,000)
Increase in loans for banking business	(141,756)	(167,619)
Increase in operating payables	14,867	21,427
Increase in financial assets for securities business	(11,725)	(768,747)
Increase in financial liabilities for securities business	71,708	730,993
Others	24,944	4,855
Income tax paid	(53,264)	(26,334)
<b>Net cash flows from operating activities</b>	<b>30,700</b>	<b>162,056</b>
<b>Cash flows from investing activities</b>		
Increase in restricted deposits	(14)	(12,597)
Decrease in restricted deposits	21,203	12,036
Increase in time deposits	(17,681)	(8,903)
Decrease in time deposits	15,110	17,082
Purchase of property, plant and equipment	(12,657)	(31,874)
Acquisition of intangible assets	(42,325)	(46,624)
Acquisition of subsidiaries	(33,612)	(5,776)
Acquisition of investments in associates and joint ventures	(19,401)	(20,576)
Purchase of investment securities for banking business	(249,291)	(312,593)
Proceeds from sales and redemption of investment securities for banking business	348,081	266,445
Purchase of investment securities for insurance business	(11,310)	(12,437)
Proceeds from sales and redemption of investment securities for insurance business	9,759	9,091
Purchase of investment securities	(53,213)	(61,937)
Proceeds from sales and redemption of investment securities	20,852	11,896
Other payments	(4,853)	(15,035)
Other proceeds	2,511	8,084
<b>Net cash flows used in investing activities</b>	<b>(26,841)</b>	<b>(203,718)</b>

## Consolidated Statements of Cash Flows

	Millions of Yen	
	Year ended December 31, 2016	<b>Year ended December 31, 2017</b>
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term borrowings	¥ (57,529)	¥ 66,039
Increase in commercial papers	28,000	44,000
Proceeds from long-term debt	212,100	364,573
Repayment of long-term debt	(163,832)	(240,473)
Proceeds from issuance of bonds	39,796	99,541
Redemption of bonds	(300)	(30,300)
Cash dividends paid	(6,408)	(6,420)
Purchase of treasury stock	(0)	(100,133)
Others	(6,627)	(2,369)
Net cash flows from financing activities	45,200	194,458
Effect of change in exchange rates on cash and cash equivalents	(1,819)	(184)
Net increase in cash and cash equivalents	47,240	152,612
Cash and cash equivalents at the beginning of the year	501,029	548,269
<b>Cash and cash equivalents at the end of the year</b>	<b>548,269</b>	<b>700,881</b>

## Corporate Information

(As of December 31, 2017)

### 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>	205,924 million yen
<b>Employees</b>	Non-consolidated: 5,831 Consolidated: 14,845

### 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-Rakuzo, 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.

## Corporate History

<b>1997</b>	Rakuten Ichiba, the internet shopping mall, commences operation.		
<b>2000</b>	Rakuten, Inc. goes public through an IPO on the OTC market (currently JASDAQ market).	<b>2013</b>	The Tohoku Rakuten Golden Eagles (“Golden Eagles”) become the No. 1 baseball team in Japan for the first time in the nine years since their formation.
<b>2001</b>	Rakuten Travel starts online hotel reservation services.		Rakuten, Inc. changes the listing of its shares from the JASDAQ (Standard) market to the First Section of the Tokyo Stock Exchange.
<b>2003</b>	MyTrip.net is acquired by Rakuten, Inc. to spearhead the travel business; later merged with Rakuten Travel, Inc. in 2004 Rakuten, Inc. acquires 96.7% of shares in DLJdirect SFG Securities to create the current Rakuten Securities, Inc.	<b>2014</b>	Rakuten, Inc. acquires 100% of shares in VIBER MEDIA LTD., which offers mobile messaging and VoIP services worldwide.
<b>2004</b>	Rakuten, Inc. acquires 96.5% of shares in Aozora Card; the company is later renamed Rakuten Card Co., Ltd. Rakuten Baseball, Inc. is founded to start a professional sports business.	<b>2015</b>	Rakuten, Inc. acquires 100% of shares in Ebates Inc., which offers a leading membership-based online cash-back site in North America.
<b>2005</b>	Rakuten, Inc. acquires 100% of shares in LinkShare Corporation (currently RAKUTEN MARKETING LLC) to spearhead overseas push. Kokunai Shinpan Co., Ltd. (currently Rakuten Card Co., Ltd; divested in 2011) is included in the consolidation as a subsidiary of Rakuten, Inc.	<b>2016</b>	Rakuten, Inc. acquires 100% of shares in OverDrive Holdings, Inc. a provider of e-book distribution services for libraries. 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.
<b>2007</b>	Rakuten, Inc. acquires 73.5% of the shares in Fusion Communications Corp. to commence an IP telephony business. Rakuten Books is integrated into Rakuten Ichiba.	<b>2017</b>	Rakuten, Inc. establishes Rakuten LIFULL STAY, Inc. and enters the vacation rental business. Rakuten, Inc. renews its corporate logo to enhance global branding and changes the logo for its group services in Japan and around the world to one based on the “Rakuten” brand. Kenko.com, Inc. and Soukai Drug Co., Ltd. merge to become Rakuten Direct, Inc.
<b>2009</b>	Rakuten, Inc. acquires eBank Corporation (now Rakuten Bank, Ltd.).		Rakuten, Inc. establishes Rakuten Data Marketing, Inc. to provide digital marketing solutions.
<b>2010</b>	bitWallet, Inc. (now Rakuten Edy, Inc.), the Edy e-money system operator, becomes a subsidiary. Buy.com Inc. (now RAKUTEN COMMERCE LLC) becomes a subsidiary through Rakuten USA, Inc. PRICEMINISTER S.A. (now PRICEMINISTER S.A.S.), an e-commerce site operator in France, becomes a wholly owned subsidiary through Rakuten Europe S.a.r.l.		Rakuten, Inc. concludes a comprehensive partnership agreement with the Golden State Warriors for the 2017-2018 season. Rakuten, Inc. made a groundbreaking partnership with the NBA to provide comprehensive live NBA Coverage in Japan.
<b>2011</b>	Tradoria GmbH. (now Rakuten Deutschland GmbH), one of Germany’s leading online e-commerce platform providers, becomes a subsidiary of Rakuten, Inc.		Rakuten, Inc. makes a new strategic alliance with Walmart to launch online grocery delivery service in Japan and new eBooks and audiobooks in the U.S. Consumer-to-Consumer Marketplace Apps Rakuma and FRIL to merge under new Rakuma brand.
<b>2012</b>	Rakuten, Inc. acquires 100% of shares in Kobo, Inc. (currently Rakuten Kobo Inc.), which offers e-book services worldwide. Wuaki.TV, S.L. ( now Rakuten TV Europe, S.L.U. )(Spain), an emerging European provider of on-demand video services, is acquired and made a wholly owned subsidiary. Acquisition of majority interest in equity-method affiliate, AIRIO Life Insurance Co., Ltd. (now Rakuten Life Insurance Co., Ltd.), which becomes a consolidated subsidiary.	<b>2018</b>	Rakuten, Inc. acquires shares of pet insurer MottoGyutto to enter into pet insurance business. Rakuten, Inc. acquires 100% of shares in the Asahi Fire & Marine Insurance Co., Ltd. Rakuten, Inc. and BIC CAMERA INC. collaborate to launch a new consumer electronics service.
<b>2013</b>	Viki, Inc., a global video streaming provider, is acquired and becomes a wholly owned subsidiary.		Rakuten Mobile Network, Inc., a subsidiary of Rakuten, Inc., receives approval from the Minister of Internal Affairs and Communications for its 4th generation mobile communications system (4G) special base station deployment plan for the 1.7 GHz frequency band.



**Rakuten, Inc.**

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