

The following information was originally prepared and published by the Company in Japanese as it contains timely disclosure materials to be submitted to the Tokyo Stock Exchange. This English summary translation is for your convenience only. To the extent there is any discrepancy between this English translation and the original Japanese version, please refer to the Japanese version. The following financial information was prepared in accordance with International Financial Reporting Standards ("IFRS").

Consolidated Financial Reports (IFRS) For the three months ended March 31, 2020

Rakuten, Inc.
May 13, 2020

Company name Rakuten, Inc. Listed Tokyo Stock Exchange
Code No 4755 URL <https://www.rakuten.co.jp/>
Representative (Title) Chairman and CEO (Name) Hiroshi Mikitani
Contact person (Title) CFO (Name) Kenji Hirose
Supplementary materials for financial results: Yes
Financial results information meeting held: Yes (For institutional investors and analysts)

1. Consolidated Results for the three months ended March 31, 2020 (January 1 – March 31, 2020)

(Yen amounts are rounded to the nearest million)

(1) Consolidated Operating Results

(%, YoY)

	Revenue		Operating income		Income before income tax		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended March 31, 2020	331,443	18.2	(24,054)	—	(35,850)	—	(35,400)	—
Three months ended March 31, 2019	280,294	15.9	113,662	304.5	112,438	333.8	104,831	501.9

	Net income attributable to owners of the parent company		Comprehensive income		Basic Earnings per Share attributable to owners of the parent company	Diluted Earnings per Share attributable to owners of the parent company
	Millions of yen	%	Millions of yen	%	Yen	Yen
Three months ended March 31, 2020	(35,319)	—	(50,749)	—	(26.03)	(26.03)
Three months ended March 31, 2019	104,981	502.6	106,027	—	77.63	76.75

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to owners of the parent company	Ratio of total equity attributable to owners of the parent company to total assets
	Millions of yen	Millions of yen	Millions of yen	%
As of March 31, 2020	9,522,104	683,530	682,054	7.2
As of December 31, 2019	9,165,697	737,200	735,672	8.0

2. Dividend Distribution

	Annual dividend per share				
	Q1	Q2	Q3	Q4	Year
	Yen	Yen	Yen	Yen	Yen
FY2019	—	0.00	—	4.50	4.50
FY2020	—	—	—	—	—
FY2020 (Forecast)	—	—	—	—	—

Note: Dividend per share for the fiscal year ending December 31, 2020 has not been decided yet, and there are no changes to the previously disclosed dividend forecast.

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

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

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

Note: There are no changes to the previously disclosed consolidated forecasts for the year ending December 31, 2020.

Notes

(1) Changes in significant subsidiaries during the current period

(Changes in specified subsidiaries resulting in change in scope of consolidation): No

New — (Company name —) Excluded — (Company name —)

(2) Changes in accounting policies and changes in accounting estimates

1. Changes in accounting policies as required under IFRS: No
2. Changes in accounting policies due to other reasons: No
3. Changes in accounting estimates: No

(3) Number of shares issued (Common stock)

1. Total number of shares issued at the end of the period (including treasury stocks)
 - 1,434,573,900 shares (As of March 31, 2020)
 - 1,434,573,900 shares (As of December 31, 2019)
2. Number of treasury stocks at the end of the period
 - 77,087,138 shares (As of March 31, 2020)
 - 78,318,938 shares (As of December 31, 2019)
3. Average number of shares during the period (cumulative from the beginning of the year)
 - 1,356,788,236 shares (January 1 – March 31, 2020)
 - 1,352,310,185 shares (January 1 – March 31, 2019)

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

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

Consolidated earnings forecasts for the year ending December 31, 2020 are based on information that is available at the time of writing, but a number of known and unknown factors could cause actual results to differ from the projections.

1. Qualitative Information, Financial Statements, etc.

(1) Qualitative Information Concerning Consolidated Business Results

The Rakuten Group discloses consolidated business results in terms of both its internal measures which the management relies upon in making decisions (hereinafter the “Non-GAAP financial measures”) and those under IFRS.

Non-GAAP operating income is operating income under IFRS (hereinafter “IFRS operating income”) after deducting unusual items and other adjustments as prescribed by the Rakuten Group. Management believes that the disclosure of Non-GAAP financial measures facilitates comparison between the Rakuten Group and peer companies in the same industry or comparison of its business results with those of prior fiscal years by stakeholders, and can provide useful information in understanding the underlying business results of the Rakuten Group and its future outlook. Unusual items refer to one-off items that the Rakuten Group believes shall be excluded for the purposes of preparing a future outlook based on certain rules. Other adjustment items are those that tend to differ depending on the standards applied, and are therefore less comparable between companies, such as stock-based compensation expenses and amortization of acquisition-related intangible assets.

Note: For disclosure of Non-GAAP financial measures, the Rakuten Group refers to the rules specified by the U.S. Securities and Exchange Commission but does not fully comply with such rules.

i) Business Results for the Three Months Ended March 31, 2020 (Non-GAAP basis)

The world economy during the three months ended March 31, 2020 has rapidly deteriorated and is in an extremely difficult situation due to the impact of COVID-19. The Japanese economy also saw a rapid drop in corporate revenues and profits due to the decline in economic activity caused by the impact of COVID-19, and it will be necessary to maintain a close watch on the risk of the infection causing a further downturn in the domestic and international economy.

On the other hand, with local governments issuing requests for facilities and stores to be closed and for people to refrain from going outside in order to prevent the spread of the infection, there is growing demand for the Internet services and online financial services that enable people to purchase products and enjoy services while reducing contact with others. The Rakuten Group believes that the social role expected of IT companies that provide such services is further increasing.

Under such an environment, the Rakuten Group is continuing to develop businesses that bring together membership, data, and branding, along with the development and operation of services that proactively leverage AI, in addition to working to diversify business risks from the impact of infectious diseases through business management that leverages the Rakuten Ecosystem, which consists of more than 70 diverse services in Japan and overseas.

In domestic e-commerce services, the mainstay of Internet Services, the Rakuten Group is aiming for further growth in gross merchandise sales and revenues by working on various initiatives, including sales promotion activities to cultivate loyal customers and win new customers, promotion of cross-use of services, further opening up the Rakuten Ecosystem, the introduction of unified measures for lines including shipping fees, and reinforcing the logistics network. As for overseas Internet services, the Rakuten Group is continuing efforts to raise the profile of the brand and expanded business.

In the FinTech segment, growth in shopping transaction volume and revolving balances due to expansion of Rakuten Card's membership base contributed to an increase in revenue and income. In addition, in banking services, revenue and income continued to expand due to an increase in interest income from growing loan balances and improvements in administrative efficiency, despite the backdrop of a negative interest rate policy. In securities services, the number of new accounts acquired in February and March 2020 reached record highs for two consecutive months, which contributed to the rapid expansion of the membership base. In addition, an increase in commissions such as from domestic stock market and FX transactions contributed to an increase in revenue and income.

In the Mobile segment, full-scale services were launched on April 8, 2020 as a mobile phone carrier providing the world's first end-to-end fully virtualized cloud-native network. In January 2020, the Rakuten Group allowed up to 20,000 additional subscribers to the Free Supporter Program that offers voice and data communications free of charge, and is working to improve the quality and stability of its network. In addition, the Rakuten Group is accelerating efforts including radio stations set up.

Through these efforts, the Rakuten Group achieved revenue of ¥331,443 million, up 18.2% year-on-

year, for the three months ended March 31, 2020. Non-GAAP operating loss was ¥18,136 million, compared to operating income of ¥117,977 million in the three months ended March 31, 2019.

(Non-GAAP)

(Millions of yen)

	Three months ended March 31, 2019	Three months ended March 31, 2020	Amount Change YoY	% Change YoY
Revenue	280,294	331,443	51,149	18.2%
Non-GAAP Operating Income (Loss)	117,977	(18,136)	(136,113)	— %

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

For the three months ended March 31, 2020, amortization of intangible assets of ¥2,634 million and share-based compensation expenses of ¥3,284 million were excluded from Non-GAAP operating income.

(Millions of yen)

	Three months ended March 31, 2019	Three months ended March 31, 2020	Amount Change YoY
Non-GAAP operating income (loss)	117,977	(18,136)	(136,113)
Amortization of intangible assets (PPA)	(2,356)	(2,634)	(278)
Stock based compensation	(1,959)	(3,284)	(1,325)
Operating Income (Loss)	113,662	(24,054)	(137,716)

iii) Business Results for the Three Months Ended March 31, 2020 (IFRS basis)

For the three months ended March 31, 2020, the Rakuten Group recorded revenue of ¥331,443 million, up 18.2% year-on-year, operating loss of ¥24,054 million, compared to operating income of ¥113,662 million in the three months ended March 31, 2019, and net loss attributable to owners of the Company of ¥35,319 million, compared to net income of ¥104,981 million in the three months ended March 31, 2019.

(IFRS)

(Millions of yen)

	Three months ended March 31, 2019	Three months ended March 31, 2020	Amount Change YoY	% Change YoY
Revenue	280,294	331,443	51,149	18.2%
Operating income (Loss)	113,662	(24,054)	(137,716)	— %
Net income (Loss) attributable to owners of the Company	104,981	(35,319)	(140,300)	— %

iv) Segment Information

Business results for each segment are as follows. In terms of the IFRS management approach, segment profit or loss is presented on a Non-GAAP operating income basis.

From the second quarter ended June 30, 2019, the segment structure of functional subsidiaries, etc. engaged in research and development has been changed, and the method of allocating shared costs in the headquarters administration departments has been changed and applied retroactively. With this change, during the three months ended March 31, 2019, for Internet Services, segment revenue decreased by ¥879 million compared to before the retroactive application, and segment profit decreased by ¥774 million; for FinTech, segment revenue decreased by ¥276 million and segment profit decreased by ¥2,821 million; and for Mobile, segment profit decreased by ¥259 million. This change has no impact on consolidated revenue, Non-GAAP operating income, or operating income.

Internet Services

In domestic e-commerce services, the mainstay of Internet Services, the Rakuten Group is aiming for further growth in gross merchandise sales and revenues by working on various initiatives, including sales promotion activities to cultivate loyal customers and win new customers, promotion of cross-use of services, and further opening up the Rakuten Ecosystem. The Rakuten Group worked to mitigate the medium to long-term impact of volume limits and increased shipping costs from shipping companies and to enhance the convenience of both customers and merchants who use Rakuten services by carrying out reinforcement of its logistics network and introducing unified measures for lines including shipping fees. These efforts include increasing capacity of the Rakuten Group's logistics facilities to accept products for stores on the Rakuten marketplace and expanding the last mile delivery area covered by the Rakuten Group based on the One Delivery concept of providing comprehensive logistics services. Services such as the Internet shopping mall Rakuten Ichiba and Rakuten 24, which sells medical supplies and daily necessities, etc. by mail order, saw an uplift in transaction volume due to the increased demand for online shopping following the growth in so-called "nesting consumption." On the other hand, Rakuten Travel, the online travel booking service, was heavily affected by the spread of COVID-19, which caused people to refrain from going out, and there was a drop in bookings and frequent cancellations, especially starting March. As for overseas Internet services, the Rakuten Group is continuing efforts aimed at raising the profile of the brand and expanding business overseas.

As a result, revenue for the Internet Service segment rose to ¥190,678 million, a 12.8% year-on-year increase, while segment loss stood at ¥4,431 million, compared to segment profit of ¥110,691 million in the three months ended March 31, 2019.

(Millions of yen)

	Three months ended March 31, 2019	Three months ended March 31, 2020	Amount Change YoY	% Change YoY
Segment Revenue	169,096	190,678	21,582	12.8%
Segment Profit (Loss)	110,691	(4,431)	(115,122)	— %

FinTech

In Rakuten Card, growth in shopping transaction volume and revolving balances due to expansion of Rakuten Card's membership base contributed to an increase in revenue and income. In addition, in banking services, revenue and income continued to expand due to an increase in interest income from growing loan balances and improvements in administrative efficiency, despite the backdrop of a negative interest rate policy. In securities services, the number of new accounts acquired in February and March reached record highs for two consecutive months, which contributed to the rapid expansion of the membership base. In addition, an increase in domestic stock market commissions and FX commissions contributed to an increase in revenue and income.

As a result, the FinTech segment recorded ¥140,038 million in revenue, a 22.9% year-on-year increase, while segment profit stood at ¥19,826 million, a 14.7% year-on-year increase.

(Millions of yen)

	Three months ended March 31, 2019	Three months ended March 31, 2020	Amount Change YoY	% Change YoY
Segment Revenue	113,939	140,038	26,099	22.9%
Segment Profit	17,284	19,826	2,542	14.7%

Mobile

In the Mobile segment, full-scale services were launched on April 8, 2020 as a mobile phone carrier providing the world's first end-to-end fully virtualized cloud-native network. Along with the launch, the Rakuten Group stopped accepting new applications for its Mobile Virtual Network Operator (MVNO) services. In January 2020, the Rakuten Group allowed up to 20,000 additional subscribers to the Free Supporter Program that offers voice and data communications free of charge, and is working to improve the quality and stability of its network. In addition, the Rakuten Group is accelerating efforts including radio stations set up. Rakuten Viber, which provides messaging and VoIP services, substantially increased revenue due to growth in membership base.

As a result, revenue for the Mobile segment rose to ¥39,233 million, a 54.7% year-on-year increase, while segment loss stood at ¥31,828 million, compared to a loss of ¥6,684 million in the three months ended March 31, 2019.

(Millions of yen)

	Three months ended March 31, 2019	Three months ended March 31, 2020	Amount Change YoY	% Change YoY
Segment Revenue	25,363	39,233	13,870	54.7%
Segment Profit (Loss)	(6,684)	(31,828)	(25,144)	— %

(2) Analysis Concerning Financial Position

i) Assets, Liabilities, and Equity

Assets

Total assets as of March 31, 2020 amounted to ¥9,522,104 million, an increase of ¥356,407 million from ¥9,165,697 million at the end of the previous fiscal year. The primary factors were an increase of ¥218,768 million in cash and cash equivalents from financing, an increase of ¥121,275 million in financial assets for securities business, and an increase of ¥118,813 million in property, plant and equipment, offset by a decrease of ¥91,879 million in loans for credit card business.

Liabilities

Total liabilities as of March 31, 2020 amounted to ¥8,838,574 million, an increase of ¥410,077 million from ¥8,428,497 million at the end of the previous fiscal year. The primary factors include an increase of ¥191,270 million in financial liabilities of securities business and an increase of ¥177,233 million in bonds and borrowings.

Equity

Total equity as of March 31, 2020 was ¥683,530 million, a decrease of ¥53,670 million from ¥737,200 million at the end of the previous fiscal year. The primary factors include a decrease of ¥41,745 million in retained earnings due mainly to the recording of ¥35,319 million in net loss attributable to owners of the Company during the three months ended March 31, 2020.

ii) Cash Flows

Cash and cash equivalents as of March 31, 2020 was ¥1,697,325 million, an increase of ¥218,768 million from the end of the previous fiscal year. Cash flow conditions and their main factors for the three months ended March 31, 2020 are as follows.

Net cash flows from operating activities

Net cash flows from operating activities for the three months ended March 31, 2020 resulted in a cash inflow of ¥143,801 million (compared with a cash outflow of ¥58,017 million for the same period of the previous fiscal year). Main factors included a cash outflow of ¥121,196 million due to an increase in financial assets for securities business, offset by a cash inflow of ¥191,238 million due to an increase in financial liabilities of securities business and a cash inflow of ¥93,325 million due to an increase in deposits of banking business.

Net cash flows from investing activities

Net cash flows from investing activities for the three months ended March 31, 2020 resulted in a cash outflow of ¥83,272 million (compared with a cash outflow of ¥18,495 million for the same period of the previous fiscal year). Main factors included a net cash inflow of ¥15,335 million due to purchase and sales, etc. of investment securities for banking business (a cash inflow of ¥127,618 million due to sales and redemption of investment securities, and a cash outflow of ¥112,283 million due to purchase of investment securities), offset by a cash outflow of ¥69,688 million due to purchase of property, plant and equipment, and a cash outflow of ¥21,263 million due to purchase of intangible assets.

Net cash flows from financing activities

Net cash flows from financing activities for the three months ended March 31, 2020 resulted in a cash inflow of ¥159,134 million (compared with a cash inflow of ¥161,268 million for the same period of the previous fiscal year). Main factors included a cash outflow of ¥92,808 million due to repayment of long-term debt, offset by a cash inflow of ¥110,000 million due to proceeds from long-term debt, a cash inflow of ¥97,459 million due to an increase in short-term borrowings, and a cash inflow of ¥57,600 million due to an increase in commercial papers.

(3) Qualitative Information about Consolidated Business Forecasts

Currently, for the forecast of consolidated operating results for Fiscal Year 2020, the Rakuten Group aims at double-digit growth from the previous fiscal year for consolidated revenues, excluding results from the securities business which are impacted substantially by the stock market. However, there is a possibility that some businesses may experience a decrease in revenue due to the impact of the voluntary restraint on outings in response to COVID-19.

The outlook for each segment for the current fiscal year is as follows.

Internet Services

Rakuten Travel, the online travel booking service, was strongly affected by the spread of COVID-19, which caused people to refrain from going out, and there was a drop in bookings and frequent cancellations, especially starting March. Revenue from this service is expected to decline for the foreseeable future. A similar decline in revenue is expected for the foreseeable future in the sports business due to the postponement of the opening of official professional baseball games and the postponement of the resumption of soccer league games. Meanwhile, in the areas of domestic Internet Services including e-commerce, the Rakuten Group will aim for further growth in gross transaction value and revenue by pursuing various initiatives, such as cultivating a loyal customer base, winning new customers, promoting cross-use of services, strengthening its logistics network with a view to expanding the e-commerce platform, and further opening up the Rakuten Ecosystem, while creating new markets through the use of technologies such as data and AI. In overseas Internet services, we aim to expand the Rakuten Ecosystem's membership base, raise the profile of the brand and provide new value to users.

FinTech

In credit card related services, we will continue striving to achieve further growth in shopping transaction value by strengthening marketing initiatives aimed at expanding market share and promoting synergy. In banking services, the business base is expected to expand due to factors including the acquisition of new accounts. In insurance services, we will aim for further growth by increasing the number of new policies and expanding our products that have a high level of affinity with Internet services. It is difficult to make a forecast for securities services due to the substantial impact of stock market conditions. The Rakuten Group is also maintaining a close eye on increases in the allowance for doubtful accounts of the finance business, as corporate earnings have deteriorated due to the spread of COVID-19.

Mobile

In the mobile phone carrier business, which launched full-scale services on April 8, 2020, the newly announced rate plan offers one year of free telecommunication charges, so revenue is expected to be limited during the fiscal year under review. Meanwhile, we are promoting the development of our radio communication stations nationwide under the plans to establish specified radio stations for spreading the fourth-generation mobile communication system and introducing the fifth-generation mobile communications system, which were certified by the Minister of Internal Affairs and Communications in April 2018 and April 2019, respectively, thereby expanding the in-house network area in which customers can use high-speed, unlimited data. As a result of these efforts, we expect an increase in operating expenses including depreciation.

2. Consolidated Financial Statements (Summary)

(1) Consolidated Statement of Financial Position (Summary)

(Millions of yen)

	As of December 31, 2019	As of March 31, 2020
Assets		
Cash and cash equivalents	1,478,557	1,697,325
Accounts receivable – trade	222,485	174,023
Financial assets for securities business	1,976,009	2,097,284
Loans for credit card business	1,828,216	1,736,337
Investment securities for banking business	272,711	257,078
Loans for banking business	1,049,993	1,101,076
Investment securities for insurance business	287,200	268,897
Derivative assets	28,050	57,225
Investment securities	163,259	126,435
Other financial assets	390,234	399,549
Investments in associates and joint ventures	177,199	177,786
Property, plant and equipment	376,424	495,237
Intangible assets	609,450	616,069
Deferred tax assets	80,153	91,473
Other assets	225,757	226,310
Total assets	9,165,697	9,522,104
Liabilities		
Accounts payable – trade	329,483	258,233
Deposits of banking business	3,160,748	3,253,991
Financial liabilities of securities business	1,860,645	2,051,915
Derivative liabilities	10,172	10,872
Bonds and borrowings	1,727,096	1,904,329
Other financial liabilities	820,440	843,984
Income taxes payable	12,952	4,301
Provisions	109,845	116,518
Insurance business policy reserves	318,090	310,871
Employee retirement benefit liabilities	11,374	13,101
Deferred tax liabilities	2,049	1,399
Other liabilities	65,603	69,060
Total liabilities	8,428,497	8,838,574
Equity		
Equity attributable to owners of the parent company		
Common stock	205,924	205,924
Capital surplus	224,379	226,248
Retained earnings	413,603	371,858
Treasury stock	(92,305)	(90,852)
Other components of equity	(15,929)	(31,124)
Total equity attributable to owners of the parent company	735,672	682,054
Non-controlling interests	1,528	1,476
Total equity	737,200	683,530
Total liabilities and equity	9,165,697	9,522,104

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

Consolidated Statement of Income (Summary)

(For the three months ended March 31, 2019 and 2020)

(Millions of yen)

	Three months ended March 31, 2019 (January 1 to March 31, 2019)	Three months ended March 31, 2020 (January 1 to March 31, 2020)
Continuing Operations		
Revenue	280,294	331,443
Operating expenses	276,857	351,115
Other income	111,545	1,024
Other expenses	1,320	5,406
Operating income (loss)	113,662	(24,054)
Financial income	325	266
Financial expenses	2,461	4,444
Share of income (losses) of investments in associates and joint ventures	912	(7,618)
Income (loss) before income tax	112,438	(35,850)
Income tax expense	7,607	(450)
Net income (loss)	104,831	(35,400)
Net income (loss) attributable to:		
Owners of the parent company	104,981	(35,319)
Non-controlling interests	(150)	(81)
Net income (loss)	104,831	(35,400)
		(Yen)
Earnings (losses) per share attributable to owners of the parent company		
Basic	77.63	(26.03)
Diluted	76.75	(26.03)

Consolidated Statement of Comprehensive Income (Summary)

(For the three months ended March 31, 2019 and 2020)

(Millions of yen)

	Three months ended March 31, 2019 (January 1 to March 31, 2019)	Three months ended March 31, 2020 (January 1 to March 31, 2020)
Net income (loss)	104,831	(35,400)
Other comprehensive income		
Items that will not be reclassified to net income		
Gains (losses) on equity instruments measured at fair value through other comprehensive income	(2,752)	(17,023)
Income tax effect of gains or losses on equity instruments measured at fair value through other comprehensive income	(1,614)	4,777
Remeasurement of insurance policy reserves based on current market interest rates	(3,063)	174
Income tax effect of remeasurement of insurance policy reserves based on current market interest rates	857	(49)
Remeasurement of defined benefit plans	(7)	1
Income tax effect of remeasurement of defined benefit plans	2	4
Share of other comprehensive income of associates and joint ventures	0	(24)
Total items that will not be reclassified to net income	(6,577)	(12,140)
Items that will be reclassified to net income		
Foreign currency translation adjustments	6,862	(5,785)
Foreign currency translation adjustments due to disposal of overseas sales activities	—	(217)
Income tax on foreign exchange differences	—	53
Gains (losses) on debt instruments measured at fair value through other comprehensive income	1,974	(143)
Allowances for doubtful debts on debt instruments measured at fair value through other comprehensive income	(37)	34
Gains (losses) on debt instruments measured at fair value through other comprehensive income reclassified from other comprehensive income to net income	(182)	(69)
Income tax effect of gains or losses on debt instruments measured at fair value through other comprehensive income	(493)	52
Gains (losses) on cash flow hedges recognized in other comprehensive income	(500)	3,275
Income tax effect of gains or losses on cash flow hedges recognized in other comprehensive income	142	(1,006)
Gains (losses) on cash flow hedges reclassified from other comprehensive income to net income	105	(166)
Income tax effect of gains or losses on cash flow hedges reclassified from other comprehensive income to net income	(32)	139
Share of other comprehensive income of associates and joint ventures	(66)	624
Total items that will be reclassified to net income	7,773	(3,209)
Other comprehensive income, net of tax	1,196	(15,349)
Comprehensive income	106,027	(50,749)
Comprehensive income attributable to:		
Owners of the parent company	106,173	(50,660)
Non-controlling interests	(146)	(89)

Comprehensive income

106,027

(50,749)

(3) Consolidated Statements of Changes in Equity (Summary)

(Millions of yen)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Other components of equity	
					Foreign currency translation adjustments	Financial instruments measured at fair value through other comprehensive income
As of January 1, 2019	205,924	218,856	424,568	(97,300)	1,462	25,781
Cumulative impact from change in accounting policies	—	—	(2,087)	—	—	—
Current period balance reflecting change in accounting policy	205,924	218,856	422,481	(97,300)	1,462	25,781
Comprehensive income						
Net income (loss)	—	—	104,981	—	—	—
Other comprehensive income net of tax	—	—	—	—	6,794	(3,108)
Total comprehensive income	—	—	104,981	—	6,794	(3,108)
Transactions with owners						
Contributions by and distributions to owners						
Cash dividends paid	—	—	(6,084)	—	—	—
Reclassification from other components of equity to retained earnings	—	—	426	—	—	(426)
Disposal of treasury stock with the exercise of stock options	—	(884)	—	953	—	—
Issuance of stock acquisition rights	—	1,935	—	—	—	—
Forfeiture of stock acquisition rights	—	(15)	15	—	—	—
Others	—	—	(3)	—	—	—
Total contributions by and distributions to owners	—	1,036	(5,646)	953	—	(426)
Changes in ownership interests in subsidiaries						
Others	—	—	—	—	—	—
Total changes in ownership interests in subsidiaries	—	—	—	—	—	—
Total transactions with owners	—	1,036	(5,646)	953	—	(426)
As of March 31, 2019	205,924	219,892	521,816	(96,347)	8,256	22,247

	Other components of equity					
	Cash flow hedges	Remeasurement of insurance business policy reserves based on current market interest rates	Remeasurement of retirement benefit plans	Total other components of equity	Total equity attributable to owners of the parent company	Non-controlling interests
As of January 1, 2019	(511)	(4,260)	(47)	22,425	774,473	1,734
Cumulative impact from change in accounting policy	—	—	—	—	(2,087)	—
Adjusted balance reflecting change in accounting policy	(511)	(4,260)	(47)	22,425	772,386	1,734
Comprehensive income						
Net income (loss)	—	—	—	—	104,981	(150)
Other comprehensive income net of tax	(284)	(2,205)	(5)	1,192	1,192	4
Total comprehensive income	(284)	(2,205)	(5)	1,192	106,173	(146)
Transactions with owners						
Contributions by and distributions to owners						
Cash dividends paid	—	—	—	—	(6,084)	—
Reclassified from other components of equity to retained earnings	—	—	—	(426)	—	—
Disposal of treasury stock with the exercise of stock options	—	—	—	—	69	—
Issuance of share acquisition rights	—	—	—	—	1,935	—
Forfeiture of stock acquisition rights	—	—	—	—	—	—
Others	—	—	—	—	(3)	—
Total contributions by and distributions to owners	—	—	—	(426)	(4,083)	—
Changes in ownership interests in subsidiaries						
Others	—	—	—	—	—	290
Total changes in ownership interests in subsidiaries	—	—	—	—	—	290
Total transactions with owners	—	—	—	(426)	(4,083)	290
As of March 31, 2019	(795)	(6,465)	(52)	23,191	874,476	1,878

(Millions of yen)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Other components of equity	
					Foreign currency translation adjustments	Financial instruments measured at fair value through other comprehensive income
As of January 1, 2020	205,924	224,379	413,603	(92,305)	(15,892)	9,669
Comprehensive income						
Net income (loss)	—	—	(35,319)	—	—	—
Other comprehensive income net of tax	—	—	—	—	(5,324)	(12,390)
Total comprehensive income	—	—	(35,319)	—	(5,324)	(12,390)
Transactions with owners						
Contributions by and distributions to owners						
Cash dividends paid	—	—	(6,103)	—	—	—
Reclassified from other components of equity to retained earnings	—	—	(146)	—	—	146
Disposal of treasury stock with the exercise of stock options	—	(1,452)	—	1,453	—	—
Issuance of share acquisition rights	—	3,339	—	—	—	—
Forfeiture of stock acquisition rights	—	(24)	24	—	—	—
Others	—	—	(201)	—	—	—
Total contributions by and distributions to owners	—	1,863	(6,426)	1,453	—	146
Changes in ownership interests in subsidiaries						
Others	—	6	—	—	—	—
Total changes in ownership interests in subsidiaries	—	6	—	—	—	—
Total transactions with owners	—	1,869	(6,426)	1,453	—	146
As of March 31, 2020	205,924	226,248	371,858	(90,852)	(21,216)	(2,575)

	Other components of equity					
	Cash flow hedges	Remeasurement of insurance business policy reserves based on current market interest rates	Remeasurement of retirement benefit plans	Total other components of equity	Total equity attributable to owners of the parent company	Non-controlling interests
As of January 1, 2020	(1,219)	(7,559)	(928)	(15,929)	735,672	1,528
Comprehensive income						
Net income (loss)	—	—	—	—	(35,319)	(81)
Other comprehensive income net of tax	2,243	125	5	(15,341)	(15,341)	(8)
Total comprehensive income	2,243	125	5	(15,341)	(50,660)	(89)
Transactions with owners						
Contributions by and distributions to owners						
Cash dividends paid	—	—	—	—	(6,103)	—
Reclassification from other components of equity to retained earnings	—	—	—	146	—	—
Disposal of treasury stock with the exercise of stock options	—	—	—	—	1	—
Issuance of stock acquisition rights	—	—	—	—	3,339	—
Forfeiture of stock acquisition rights	—	—	—	—	—	—
Others	—	—	—	—	(201)	—
Total contributions by and distributions to owners	—	—	—	146	(2,964)	—
Changes in ownership interests in subsidiaries						
Others	—	—	—	—	6	37
Total changes in ownership interests in subsidiaries	—	—	—	—	6	37
Total transactions with owners	—	—	—	146	(2,958)	37
As of March 31, 2020	1,024	(7,434)	(923)	(31,124)	682,054	1,476

(4) Consolidated Statement of Cash Flows (Summary)

(Millions of Yen)

	Three months ended March 31, 2019 (January 1 to March 31, 2019)	Three months ended March 31, 2020 (January 1 to March 31, 2020)
Cash flows from operating activities		
Income (loss) before income tax	112,438	(35,850)
Depreciation and amortization	23,737	33,569
Other loss (Income)	(109,578)	18,978
Decrease (Increase) in operating receivables	20,608	40,871
Decrease (Increase) in loans for credit card business	2,341	91,776
Increase (Decrease) in deposits for banking business	126,253	93,325
Net decrease (increase) in call loans for banking business	(18,000)	15,000
Decrease (Increase) in loans for banking business	(45,006)	(51,082)
Increase (Decrease) in operating payables	(23,401)	(66,468)
Decrease (Increase) in financial assets for securities business	(83,163)	(121,196)
Increase (Decrease) in financial liabilities for securities business	(2,012)	191,238
Others	(52,414)	(59,168)
Income tax paid	(9,820)	(7,192)
Net cash flows from (used in) operating activities	(58,017)	143,801
Cash flows from investing activities		
Increase in time deposits	(2,149)	(4,225)
Decrease in time deposits	2,167	6,105
Purchase of property, plant and equipment	(25,270)	(69,688)
Purchase of intangible assets	(20,654)	(21,263)
Acquisition of subsidiaries	(1,779)	(4,714)
Acquisition of investments in associates and joint ventures	(408)	(8,542)
Purchase of investment securities for banking business	(54,355)	(112,283)
Proceeds from sales and redemption of investment securities for banking business	65,093	127,618
Purchase of investment securities for insurance business	(10,456)	(43,881)
Proceeds from sales and redemption of investment securities for insurance business	25,695	26,561
Purchase of investment securities	(6,478)	(3,816)
Proceeds from sales and redemption of investment securities	11,777	22,866
Other payments	(4,061)	(5,150)
Other proceeds	2,383	7,140
Net cash flows from (used in) investing activities	(18,495)	(83,272)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	78,357	97,459
Increase (Decrease) in commercial papers	76,000	57,600
Proceeds from long-term debt	105,000	110,000
Repayment of long-term debt	(88,233)	(92,808)
Repayment of leases	(3,484)	(6,915)
Cash dividends paid	(6,113)	(6,103)
Others	(259)	(99)
Net cash flows from (used in) financing activities	161,268	159,134
Effect of change in exchange rates on cash and cash equivalents	5,332	(895)
Net increase (decrease) in cash and cash equivalents	90,088	218,768
Cash and cash equivalents at the beginning of the period	990,242	1,478,557
Cash and cash equivalents at the end of the period	1,080,330	1,697,325

(5) Assumptions for going concern for the three months ended March 31, 2020

No items to report

(6) Notes to the summary of consolidated financial statements for the three months ended March 31, 2020

(Basis of presentation)

The Rakuten Group's summary of consolidated financial statements for the three months ended March 31, 2020 meets the requirements set out under Article 1-2 of the Rules on Terminology, Formats and Compilation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Ordinance No. 64 of 2007; hereinafter referred to as the "Rules on Quarterly Consolidated Financial Statements") under which the Rakuten Group is qualified as a "Specified Company under the Designated International Accounting Standards" and duly prepares such summary in accordance with IAS 34 "Interim Financial Reporting" under the provision of Article 93 of the Rules on Quarterly Consolidated Financial Statements. As this summary does not contain all the information required in annual consolidated statements, it is advised to be used in combination with the consolidated financial statements for the fiscal year ended December 31, 2019.

(Significant accounting policies)

Significant accounting policies adopted by the Rakuten Group in this summary of consolidated financial statements for the three months ended March 31, 2020 basically remain the same as those adopted in the consolidated financial statements for the previous fiscal year. In addition, income tax expenses for the three months ended March 31, 2020 are calculated based upon an estimated annual effective tax rate.

(Significant accounting estimates and judgments)

Preparation of the summary of consolidated financial statements under IFRS for the three months ended March 31, 2020 involves accounting estimates in respect of certain significant matters. In the process of adopting accounting policies, management of the Rakuten Group is required to make its own judgments. Resulting accounting estimates by their nature may be different from the actual outcome.

Accounting estimates and accounting assumptions are subject to continuous review. Effects of changes in accounting estimates are recognized in the fiscal year in which such changes take place as well as fiscal years that follow.

Estimates and judgments that have significant impact on the amounts in the consolidated financial statements for the three months ended March 31, 2020 remain the same as those that had significant impact on the amounts in the consolidated financial statements for the previous fiscal year. COVID-19 has affected economic activities in many countries around the world, causing uncertainty in some businesses of the Rakuten Group's "Internet Services" segment. However, the Rakuten Group provides more than 70 services in a wide range of fields, and even assuming such conditions continue through this fall, the situation has not resulted in changes in accounting estimates and judgments that would have an overall material impact on this summary of consolidated financial statements at this time. If uncertainty further increases, it could affect significant accounting estimates and judgments, such as the recoverability of goodwill, the recoverability of deferred tax assets, the impairment of debt instruments, and investments in affiliates.

Segment information

1. General Information

As a global innovation company engaged in the three main activities of Internet Services, FinTech, and Mobile, the Group Companies are organized into three reportable segments: “Internet Services,” “FinTech,” and “Mobile.”

For the reportable segments, separate financial information on the operational units of the Group is available, and such financial information is subject to periodic review for the Board of Directors to decide on the distribution of management resources and evaluate performance.

The “Internet Services” segment comprises businesses running various EC (e-commerce) sites including internet shopping mall Rakuten Ichiba, online cash-back sites, travel booking sites, portal sites and digital content sites, along with sales of advertising, etc. on these sites, and management of professional sports teams, etc.

The “FinTech” segment engages in businesses providing services over the internet related to banking and securities, credit cards, life insurance, general insurance and electronic money.

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

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

Operating segment information is reported in accordance with IFRS. Operating segment revenue and profit or loss amounts are those before intersegment eliminations, without consideration of consolidation adjustments, except for certain consolidated subsidiaries. The internal measures management relies upon in making decisions are Non-GAAP operating income; operating income in accordance with IFRS adjusted for unusual items and other adjustment items prescribed by the Rakuten Group.

Management believes that the disclosure of Non-GAAP financial measures facilitates comparison between the Rakuten Group and peer companies in the same industry or comparison of its business results with those of prior fiscal years by stakeholders, and can provide useful information in understanding the underlying business results of the Rakuten Group and its future outlook. Unusual items refer to one-off items that the Rakuten Group believes shall be excluded for the purposes of preparing a future outlook based on certain rules. Other adjustment items are those that tend to differ depending on the standards applied, and are therefore less comparable between companies, such as stock-based compensation expenses and amortization of acquisition-related intangible assets.

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

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

From the second quarter ended June 30, 2019, the segment structure of functional subsidiaries etc. engaged in research and development has been changed, and the method of allocating shared costs in the headquarters administration departments has been changed and applied retroactively. With this change, during the three months ended March 31, 2019, Internet Services segment revenue decreased by ¥879 million compared to before retroactive application and segment profit decreased by ¥774 million, FinTech segment revenue decreased by ¥276 million and segment profit decreased by ¥2,821 million, and Mobile segment profit decreased by ¥259 million. There is no impact on consolidated revenue, Non-GAAP operating income, and operating income.

Three months ended March 31, 2019 (January 1 to March 31, 2019)

(Millions of Yen)

	Internet Services	FinTech	Mobile	Total
Segment Revenue	169,096	113,939	25,363	308,398
Segment Profit (Loss)	110,691	17,284	(6,684)	121,291

Three months ended March 31, 2020 (January 1 to March 31, 2020)

(Millions of Yen)

	Internet Services	FinTech	Mobile	Total
Segment Revenue	190,678	140,038	39,233	369,949
Segment Profit (Loss)	(4,431)	19,826	(31,828)	(16,433)

Reconciliation from Segment Revenue to Consolidated Revenue

(Millions of Yen)

	Three months ended March 31, 2019 (January 1 to March 31, 2019)	Three months ended March 31, 2020 (January 1 to March 31, 2020)
Segment Revenue	308,398	369,949
Intercompany transactions, etc.	(28,104)	(38,506)
Consolidated Revenue	280,294	331,443

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

(Millions of Yen)

	Three months ended March 31, 2019 (January 1 to March 31, 2019)	Three months ended March 31, 2020 (January 1 to March 31, 2020)
Segment Profit (Loss)	121,291	(16,433)
Intercompany transactions, etc.	(3,314)	(1,703)
Non-GAAP Operating Income (Loss)	117,977	(18,136)
Amortization of Intangible Assets (PPA)	(2,356)	(2,634)
Stock Based Compensation	(1,959)	(3,284)
Operating income (loss)	113,662	(24,054)
Financial income and expenses	(2,136)	(4,178)
Share of income (losses) of investments in associates and joint ventures	912	(7,618)
Income (loss) before income tax	112,438	(35,850)

Breakdown of Operating Expenses

(Millions of Yen)

	Three months ended March 31, 2019 (January 1 to March 31, 2019)	Three months ended March 31, 2020 (January 1 to March 31, 2020)
Advertising and promotion expenditures	52,196	53,334
Employee benefits expenses	48,946	58,014
Depreciation and amortization	23,737	33,569
Communication and maintenance expenses	7,009	8,607
Consignment and subcontract expenses	16,391	23,396
Allowance for doubtful accounts charged to expenses	9,732	10,778
Cost of sales of merchandise and service revenue	73,179	109,339
Interest expense for finance business	1,771	1,920
Commission expense for finance business	2,894	3,541
Insurance claims and other payments, and provision of policy reserves and others for insurance business	7,352	13,026
Others	33,650	35,591
Total	276,857	351,115

(Other Income)

(Millions of Yen)

	Three months ended March 31, 2019 (January 1 to March 31, 2019)	Three months ended March 31, 2020 (January 1 to March 31, 2020)
Valuation gains on securities (Note)	110,433	—
Others	1,112	1,024
Total	111,545	1,024

Note: During the three months ended March 31, 2019, the Group recorded ¥108,340 million in valuation gains on securities related to investments in the ride-sharing business.

(Other Expenses)

(Millions of Yen)

	Three months ended March 31, 2019 (January 1 to March 31, 2019)	Three months ended March 31, 2020 (January 1 to March 31, 2020)
Foreign exchange losses	377	412
Loss on disposal of property, plant and equipment and intangible assets	236	115
Valuation losses on securities	—	2,511
Impairment loss	77	682
Others	630	1,686
Total	1,320	5,406

Notes on significant subsequent events

No items to report.