

Annual Securities Report

(“Yukashoken-Hokokusho”)

Fiscal Year Ended December 31, 2020

Rakuten, Inc. and its Consolidated Subsidiaries



This document has been extracted and translated from the Japanese original report (Yukashoken-Hokokusho) issued on March 30, 2021 for reference purposes only. In the event of any discrepancy between this translated document and Japanese original, the original shall prevail.

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[Accounting Period] The 24th Fiscal Year (from January 1, 2020 to December 31,
2020)

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Part I Information on the Company

I. Overview of the Company

1. Key Financial Data and Trends

(1) Consolidated Financial Data, etc.

(Millions of Yen, unless stated otherwise)

Fiscal year	20th	21st	22nd	23rd	24th
Year end	Dec. 2016	Dec. 2017	Dec. 2018	Dec. 2019	Dec. 2020
Revenue	781,916	944,474	1,101,480	1,263,932	1,455,538
Income (loss) before income tax	74,458	138,082	165,423	(44,558)	(151,016)
Net income (loss)	38,435	110,488	141,889	(33,068)	(115,838)
Comprehensive income	20,106	100,981	124,452	(42,818)	(132,401)
Equity attributable to owners of the Company	682,391	683,181	774,473	735,672	608,738
Total assets	4,604,672	6,184,299	7,345,002	9,165,697	12,524,438
Equity attributable to owners of the Company per share Yen	478.40	507.32	572.83	542.43	446.78
Basic net income / earnings (losses) per share Yen	26.96	80.03	105.43	(23.55)	(84.00)
Diluted net income / earnings (losses) per share Yen	26.74	79.28	104.38	(23.55)	(84.00)
Equity attributable to owners of the Company ratio (%)	14.8	11.0	10.5	8.0	4.9
Net income to equity attributable to owners of the Company ratio (%)	5.7	16.2	19.5	(4.2)	(17.0)
Price earnings ratio (Times)	42.5	12.9	7.0	—	—
Cash flows from operating activities	30,700	162,056	145,615	318,320	1,041,391
Cash flows from investing activities	(26,841)	(203,718)	(67,569)	(286,290)	(303,347)
Cash flows from financing activities	45,200	194,458	208,418	458,340	808,108
Cash and cash equivalents at end of the year	548,269	700,881	990,242	1,478,557	3,021,306
Employees (Persons)	14,134	14,845	17,214	20,053	23,841

(Notes) 1 Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (hereinafter referred to as the “IFRS”).

2 Consumption tax is not included in Revenue.

3 Average number of shares during the fiscal year is calculated on a daily basis.

4 Price earnings ratio is not disclosed for the fiscal year ended December 31, 2019 and the fiscal year ended December 31, 2020, as a net loss is reported for each fiscal year.

5 Number of Employees does not include those serving concurrently as employees and Directors, temporary staff and part-time employees.

6 With regard to insurance business policy reserves, Rakuten Group has previously applied

the method of measuring insurance liabilities prescribed by laws and regulations that apply to insurance contracts in Japan. However, from the fiscal year ended December 31, 2017, in order to measure insurance liabilities according to discount rates based on current market interest and reflect the time value of money, Rakuten Group has changed to a method that recognizes interest arising from the book value of insurance liabilities in net income, and the amount of fluctuation in insurance liabilities associated with other fluctuations in the discount rate in other comprehensive income. Accordingly, major management indicators, etc. for the fiscal year ended December 31, 2016 have been retrospectively restated to reflect the change in accounting policy.

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

(Millions of Yen, unless stated otherwise)

Fiscal year	20th JGAAP	21st JGAAP	22nd JGAAP	23rd JGAAP	24th JGAAP
Year end	Dec. 2016	Dec. 2017	Dec. 2018	Dec. 2019	Dec. 2020
Net sales	305,437	359,693	431,904	541,755	657,434
Ordinary profit	61,789	49,603	18,142	19,406	29,825
Net profit	38,839	61,643	93,150	15,792	53,646
Common stock	204,562	205,924	205,924	205,924	205,924
Total number of shares issued (Shares)	1,432,422,600	1,434,573,900	1,434,573,900	1,434,573,900	1,434,573,900
Net assets	607,152	568,702	665,977	507,501	505,614
Total assets	1,135,909	1,338,839	1,799,645	2,017,118	2,373,188
Net assets per share Yen	417.61	410.77	480.53	358.18	352.14
Dividend per share Yen	4.50	4.50	4.50	4.50	4.50
(Interim dividend per share) Yen	(—)	(—)	(—)	(—)	(—)
Basic earnings per share Yen	27.24	44.60	69.02	11.66	39.46
Diluted earnings per share Yen	27.02	44.19	68.33	11.46	38.61
Equity ratio (%)	52.4	41.3	36.1	24.1	20.2
Return on equity (%)	6.7	10.7	15.5	2.8	11.1
Price earnings ratio (Times)	42.1	23.2	10.7	80.2	25.2
Dividend payout ratio (%)	16.5	10.1	6.5	38.6	11.4
Number of employees (Persons)	5,549	5,831	6,528	7,288	7,390
Total shareholder return (%)	82.0	74.2	53.4	67.9	72.5
(Comparison index: TOPIX total return index) (%)	[100.3]	[122.6]	[103.0]	[121.7]	[130.7]
Highest share price (Yen)	1,462	1,408	1,045	1,313	1,259
Lowest share price (Yen)	943	1,011	700	710	636

(Notes) 1 Consumption tax is not included in Net sales.

2 Average number of shares during the year is calculated on a daily basis.

3 Number of employees does not include those serving concurrently as employees and Directors, employees seconded to other group companies, temporary staff and part-time employees.

4 The highest and lowest share prices refer to those of the First Section of the Tokyo Stock Exchange.

5 The “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) has been applied from the beginning of the fiscal year ended December 31, 2019, and relevant key financial data, etc. for the fiscal year ended December 31, 2018 have been retrospectively restated.

2. Corporate History

Period		Overview
1997	Feb	MDM Co., Ltd. is founded to develop an online commerce server and operate Internet shopping mall, Rakuten Ichiba, with capital of ¥10 million at 1-6-7 Atago, Minato-ku, Tokyo.
	May	Internet shopping mall, Rakuten Ichiba commences operations.
1998	Aug	Head office is transferred to 2-8-16 Yutenji, Meguro-ku, Tokyo.
1999	Jun	MDM Co., Ltd. is renamed as Rakuten, Inc.
2000	Apr	Rakuten, Inc. is listed with the Japan Securities Dealers Association.
	May	Head office is transferred to 2-6-20 Nakameguro, Meguro-ku, Tokyo.
2001	Mar	Commencement of Rakuten Travel services.
2002	Nov	Introduction of Rakuten Super Points (currently Rakuten Points) program.
2003	Sep	Rakuten, Inc. consolidates MyTrip.net, an accommodation booking site operator, as a subsidiary.
	Oct	Head office is transferred to 6-10-1 Roppongi, Minato-ku, Tokyo.
	Nov	Rakuten, Inc. consolidates DLJdirect SFG Securities (currently Rakuten Securities, Inc.) as a subsidiary.
2004	Sep	Rakuten Inc. consolidates Aozora Card Co., Ltd. (currently Rakuten Card Co., Ltd.) as a subsidiary.
	Nov	Nippon Professional Baseball (currently Nippon Professional Baseball Organization) approves new entry of Tohoku Rakuten Golden Eagles.
	Dec	Rakuten, Inc. goes public on the Jasdak Securities Exchange Inc. (currently Tokyo Securities Exchange JASDAQ (standard)).
2005	Sep	Rakuten, Inc. consolidates LinkShare Corporation (currently RAKUTEN MARKETING LLC) as a subsidiary.
2007	Aug	Rakuten, Inc. consolidates IP telephony business Fusion Communications (currently Rakuten Communications Corp.) as a subsidiary.
2008	Apr	Head office is transferred to 4-12-3 Higashishinagawa, Shinagawa-ku, Tokyo.
2009	Feb	Rakuten, Inc. consolidates eBank Corporation (currently Rakuten Bank, Ltd.) as a subsidiary.
2010	Jan	Rakuten, Inc. consolidates bitWallet, Inc., (currently Rakuten Edy, Inc.) as a subsidiary.
	Jul	Rakuten, Inc. consolidates PRICEMINISTER S.A. (currently RAKUTEN FRANCE S.A.S.), as a subsidiary.
2012	Jan	Rakuten, Inc. consolidates Kobo Inc. (currently Rakuten Kobo Inc.) which offers e-book services worldwide, as a subsidiary.
	Jun	Rakuten, Inc. consolidates Wuaki. TV, S.L. (currently Rakuten TV Europe, S.L.U.), a provider of video streaming services in Spain, as a subsidiary.
	Oct	Rakuten, Inc. consolidates AIRIO Life Insurance Co., Ltd. (currently Rakuten Life Insurance Co., Ltd.), an associate accounted for using equity method, as a subsidiary.
2013	Sep	Rakuten, Inc. consolidates VIKI, Inc. a provider of video streaming services worldwide, as a subsidiary.
	Nov	Tohoku Rakuten Golden Eagles win their first Nippon Series championship.
	Dec	Rakuten, Inc. changes its stock marketing listing to the First Section of the Tokyo

Period		Overview
		Stock Exchange.
2014	Mar	Rakuten, Inc. consolidates VIBER MEDIA LTD. which operates mobile messaging and VoIP services worldwide, as a subsidiary.
	Oct	Rakuten, Inc. consolidates Ebates Inc. which operates a leading membership-based online cash-back site in the U.S., as a subsidiary.
	Oct	Rakuten, Inc. stages a full scale entry into the mobile phone business and begins provision of services through Rakuten Mobile.
2015	Aug	Head office is transferred to 1-14-1 Tamagawa, Setagaya-ku Tokyo.
2016	Nov	Rakuten, Inc. enters into a basic agreement with FC Barcelona to become the Global Main Partner and Global Innovation & Entertainment Partner, starting from the 2017-2018 season.
2017	Jun	Rakuten, Inc. establishes Rakuten LIFULL STAY, Inc. and enters the vacation rental business.
	Jul	Rakuten, Inc. establishes Rakuten Data Marketing, Inc. to provide digital marketing solutions.
	Sep	Rakuten, Inc. concludes a comprehensive partnership agreement with the Golden State Warriors for the 2017-2018 season.
2018	Mar	Rakuten, Inc. consolidates Asahi Fire & Marine Insurance Co., Ltd. (currently Rakuten General Insurance Co., Ltd.) as a subsidiary.
2019	Aug	“Rakuten Wallet” launches crypto asset (virtual currency) spot transaction service.
	Oct	“Rakuten Mobile” launches mobile carrier business.
2020	Apr	Rakuten Mobile, Inc. establishes Rakuten Mobile Singapore Pte. Ltd. as a development center for “Rakuten Communications Platform” (a container platform for providing 4G and 5G mobile networks being developed by Rakuten Mobile, Inc.), and headquarters for global sales and marketing.
	Sep	“Rakuten Mobile” launches 5G mobile communications system service in its mobile carrier service.

3. Description of Business

The Group Companies are organized into three reportable segments: “Internet Services,” “FinTech” and “Mobile.”

Discrete financial information for operating results of these segments is available, and is regularly reviewed by the Board of Directors to determine the allocation of resources and assess performance.

The “Internet Services” segment comprises businesses providing various EC (e-commerce) sites including internet shopping mall “Rakuten Ichiba”, online cash-back sites, travel booking sites and portal sites, along with business for advertising etc. delivered on these sites. Additionally, this segment includes businesses managing professional sports teams.

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

The “Mobile” segment engages in businesses for the provision of communication and messaging services, and businesses providing digital content sites.

The following segments are classified in the same way as stated in the “Segment Information” note of the Consolidated Financial Statements.

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

Internet Services

Significant services provided	Main entities involved in such services
Internet shopping mall service, Rakuten Ichiba	Rakuten, Inc.
Online book store, Rakuten Books	Rakuten, Inc.
Online golf course reservation service, Rakuten GORA	Rakuten, Inc.
A comprehensive Internet travel site, Rakuten Travel	Rakuten, Inc.
E-commerce services for daily necessities and household goods	Rakuten, Inc.
Online fashion store, Rakuten Fashion	Rakuten, Inc.
Flea market app, Rakuma	Rakuten, Inc.
Online cash- back service	Ebates Inc.
Performance marketing services	RAKUTEN MARKETING LLC

FinTech

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

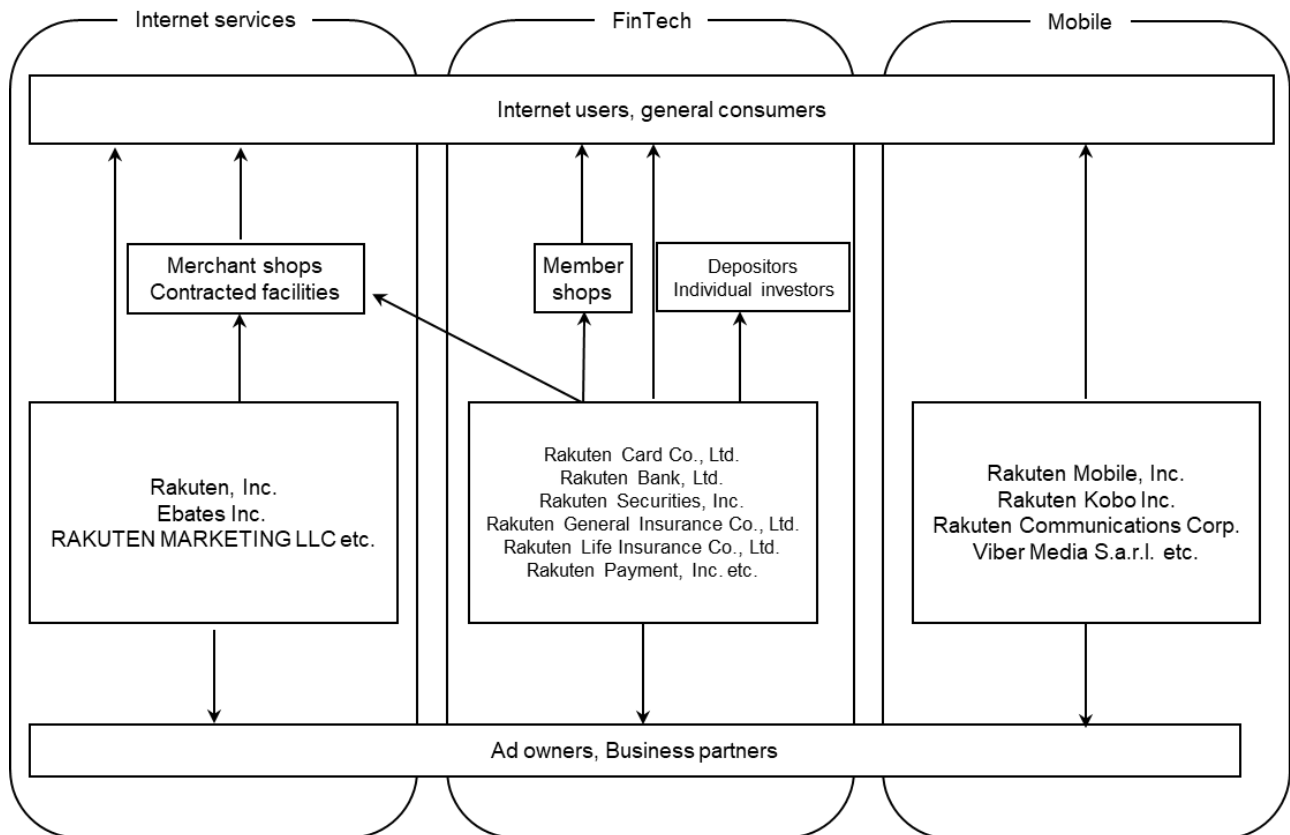
Mobile

Significant services provided	Main entities involved in such services
Mobile communication services	Rakuten Mobile, Inc.
Optical broadband line services, Rakuten Hikari	Rakuten Mobile, Inc.
Power supply services, Rakuten Denki	Rakuten Mobile, Inc.
Cloud and IP telephone services	Rakuten Communications Corp.
Mobile messaging and VoIP services	Viber Media S.a.r.l.
e-book services	Rakuten Kobo Inc.

(Note) From the fiscal year ended December 31, 2020, Rakuten Kobo Inc., which had previously been included in the Internet Services segment, has been transferred to the Mobile segment.

[Business Organization Chart]

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



4. Information on Subsidiaries and Associates

Company name	Location	Paid in capital	Principal business	Ratio of voting rights holding (held)	Relationship	Note
Consolidated Subsidiaries						
Ebates Inc.	U.S.	0.1 U.S. dollar	Internet Services	100.0 (100.0)		
RAKUTEN MARKETING LLC	U.S.	1 U.S. dollar	Internet Services	100.0 (100.0)		
Rakuten Card Co., Ltd.	Minato-ku, Tokyo	19,324 million yen	FinTech	100.0	Involving interlocking directorates	Notes 5, 6, 7
Rakuten Bank, Ltd.	Minato-ku, Tokyo	25,954 million yen	FinTech	100.0 (100.0)	Involving interlocking directorates	Note 5
Rakuten Securities, Inc.	Minato-ku, Tokyo	7,496 million yen	FinTech	100.0 (100.0)		
Rakuten General Insurance Co., Ltd.	Shinjuku-ku, Tokyo	5,153 million yen	FinTech	100.0 (100.0)	Involving interlocking directorates	
Rakuten Life Insurance Co., Ltd.	Shinjuku-ku, Tokyo	7,500 million yen	FinTech	100.0 (100.0)	Involving interlocking directorates	
Rakuten Payment, Inc.	Minato-ku, Tokyo	1,350 million yen	FinTech	100.0	Involving interlocking directorates	
Rakuten Mobile, Inc.	Setagaya-ku, Tokyo	100 million yen	Mobile	100.0	Involving provision of loans Involving interlocking directorates	Notes 5, 8
Rakuten Kobo Inc.	Canada	901 million Canadian dollars	Mobile	100.0 (100.0)		Note 5
Rakuten Communications Corp.	Setagaya-ku, Tokyo	110 million yen	Mobile	100.0 (100.0)		
Viber Media S.a.r.l.	Luxembourg	20 thousand U.S. dollars	Mobile	100.0		
Associate Accounted for Using Equity Method						
Rakuten Medical, Inc.	U.S.	273 thousand U.S. dollars	Internet Services	22.3	Involving interlocking directorates	

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

2 There are 162 consolidated subsidiaries other than those stated above.

3 There are 63 associates accounted for using equity method other than those stated above.

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

5 This company is a specified subsidiary.

6 This company files an Annual Securities Report.

7 Although revenue from Rakuten Card Co., Ltd. (excluding internal revenue recorded among consolidated companies) accounts for more than 10% in consolidated revenue, information on major income (loss) is omitted since this consolidated subsidiary files an Annual Securities Report.

8 The following measures have been taken to procure funds through securitization of

telecommunication fee receivables held by Rakuten Mobile, Inc. (hereinafter “Rakuten Mobile”). All shares of Rakuten Mobile are entrusted by Rakuten, Inc. (hereinafter the “Company”) to Rakuten Trust Co., Ltd. This is a mechanism designed to protect investors in the securitization of Rakuten Mobile’s telecommunication fee receivables. Under this mechanism, if conditions are met such as the Company’s credit rating falling below a certain level, the authority will give instructions to transfer the voting rights to RM Trust Co., Ltd., which is an independent third party and Rakuten Mobile will be able to prevent any impact due to the diminishment of the creditworthiness of the Company. Because the Company currently holds beneficiary rights including the authority to give instructions for all voting rights, it is included in the percentage of voting rights held.

5. Employees

(1) Consolidated Companies

As of December 31, 2020	
Name of business segments	Number of employees
Internet Services	9,478
FinTech	5,064
Mobile	5,327
Company-wide (common)	3,972
Total	23,841

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

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

(2) Company filing Financial Reports

As of December 31, 2020			
Number of employees	Average age	Average length of service	Average annual salary (Yen)
7,390	34.2	4.5	7,450,199

Name of business segments	Number of employees
Internet Services	4,631
FinTech	—
Mobile	225
Company-wide (common)	2,534
Total	7,390

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

2 Average annual salary includes bonus and extra wage.

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

(3) Status of Labor Union

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

II. Business Overview

1. Management Policy, Management Environment and Challenges

(1) Basic management policy

Our corporate mission since founding is based on the empowerment of individuals and society through innovation and entrepreneurship. We contribute to social innovation and enrichment by boosting the growth of as many people as possible, while providing services that ensure a high standard of satisfaction for both users and partner enterprises. We aim to maximize the corporate value and shareholder value of the Group with the vision of continuing to be a Global Innovation Company.

(2) Targeted management indicators

Rakuten Group aims to enhance its growth potential and profitability by focusing on Key Performance Indicators (KPIs), which serve as major management indicators. They include company-wide revenue and revenue by business, Non-GAAP operating income, gross merchandise sales (transaction value of merchandise and services), the number of membership and cross-use rate.

(3) Medium-to long-term management strategies

1) Management environment

The development and spread of the Internet and other information and communications technology (ICT) has brought a new economy and society called the “Digital Economy.” The government of Japan has advanced “Society 5.0,” a concept of society positioned as the next stage of evolution. In Society 5.0, new technologies such as IoT, robots, Artificial Intelligence (AI), and big data, which affect the very shape of society, will be used in every industry and throughout civil life. It is expected to contribute to economic development and the solving of social issues. We believe that society has a need for companies that use these cutting-edge technologies to bring about innovation.

According to a study by the Ministry of Economy, Trade and Industry, the Japanese business-to-consumer e-commerce market in 2019 reached ¥19 trillion, and e-commerce related to product sales accounted for 6.76% of the business-to-consumer market. Business-to-consumer e-commerce continues to advance. While the global COVID-19 pandemic has reduced demand for face-to-face services, it has also created a sudden increase in demand related to stay-at-home consumption and purchasing activities which seek to avoid contact with others. The e-commerce market is expected to grow in scale, and the percentage of transactions performed via e-commerce is predicted to rise.

In cashless payments, the “Cashless Vision” developed by the Ministry of Economy, Trade and Industry in April 2018 sets a goal to increase the ratio of cashless payments to 40% by 2025, and then to 80% in the future, the highest level in the world. The scale of cashless payments is forecast to grow through the use of various payment methods, including credit card payments and QR code/barcode payments.

In mobile communications, the Japanese mobile communications market continues to grow. According to a report from the Ministry of Internal Affairs and Communications, the number of mobile phone subscribers as of September 30, 2020 reached 189,170,000, and the amount of mobile communications traffic in Japan keeps growing, driven by factors such as greater use of

high bandwidth content.

The management environment surrounding Rakuten Group is constantly changing with the acceleration of digital transformation. Rakuten Group must flexibly respond to these changes through constant technical innovation and optimization of its business portfolio.

(Impact of COVID-19)

During the fiscal year ended December 31, 2020, the Japanese economy declined significantly compared to the previous fiscal year. This was due to the economic stagnation caused by the global COVID-19 pandemic through supply restrictions resulting from the cessation of production activities and logistics, material shortages, and interruptions in supply chains across national borders. Furthermore, in order to prevent the spread of infection, people were urged or forced to stay home and travel restrictions were put in place, reducing demand for face-to-face service and placing constraints on demand. Due to the effectiveness of government policies, the Japanese economy is expected to continue to recover. However, there is a risk of an economic downturn due to the effects of another large wave of an infectious disease on economic activities. If those effects were to become prolonged, they could have an impact on the business operations, financial performance, and financial position of Group Companies. Meanwhile, Japan's Ministry of Health, Labour and Welfare is requesting that people practice a "New Lifestyle" to prevent the spread of COVID-19, including shopping online and utilizing electronic payments. IT companies provide the Internet services and online financial services that enable people to purchase products and enjoy services while reducing contact with others, and the social role expected of IT companies is further increasing.

2) Management strategies

Rakuten Group's basic business strategy is to build and expand a business model based on the "Rakuten Ecosystem," which provides various services to users, especially Rakuten Group members. By expanding the "Rakuten Ecosystem" through business development that brings together the membership, data, and brand of Rakuten Group, we aim to generate synergistic benefits that maximize the lifetime value of each member and group revenues, while minimizing customer acquisition costs. We will achieve this by creating an environment in which members worldwide can seamlessly switch between multiple services including e-commerce, FinTech, digital content and our mobile carrier business.

In addition, Rakuten Group is taking the initiative to reinforce corporate governance by thoroughly enforcing compliance and information security management. We will also contribute to the formation of a society that brings out the potential of every individual by valuing diversity and continuously making efforts to develop human resources.

Through these initiatives, Rakuten Group intends to contribute to the revitalization of Japan and the countries and regions in which it operates, as well as the development of the Japanese and global economy, and continuing its role as a company that is trusted by its stakeholders.

(4) Priority challenges

As a company group that contributes to society by creating value through innovation and entrepreneurship, our challenges are to respond flexibly to changes in our business environment and to build a framework for continuous growth. Through long-term continuous growth, we aim to maximize corporate and shareholder value of Rakuten Group and continue to be a Global Innovation Company that brings benefits to the society.

1) Business strategy

Rakuten Group aims to generate synergistic benefits that include maximization of the lifetime value of each member, minimization of customer acquisition cost, and maximization of Group revenue. We will achieve this by creating an environment in which members worldwide can continuously use multiple services in the “Rakuten Ecosystem,” at the core of which are membership, data, and brand.

In the Internet Services segment, particularly e-commerce and travel, Rakuten Group is working on various initiatives, including cultivation of loyal customers and acquisition of new customers, promotion of cross-use of services, further expansion of the “Rakuten Ecosystem,” and reinforcement of its logistics network.

We are pursuing even greater growth of FinTech services in such areas as credit cards, banking, securities, insurance, and prepaid money services by generating synergistic benefits between businesses, promoting cross-use of services, and integrating technologies including AI and voice recognition. In cashless payments, cashless promotion measures were introduced by the Japanese government. Given this, Rakuten Group is working to introduce its payment service in more locations, promote a full range of cashless payments including QR code/barcode payments, prepaid money, and points. Furthermore, we will continue to focus on enhancing the functions of payment apps which integrate these payment methods, in order to achieve Rakuten Group’s vision for a comprehensive payment services platform.

In the Mobile segment, where we commenced full-scale services in the mobile communication business in the fiscal year ended December 31, 2020, Rakuten Group received certification in April 2018 from the Ministry of Internal Affairs and Communications for the plan to install specified base stations for rolling out its fourth-generation mobile communication system, and received certification in April 2019 for its plan to install specified base stations for rolling out our fifth-generation mobile communication system. In accordance with these plans, we constructed the world’s first (Note) end-to-end fully virtualized cloud-native mobile network. Going forward, we will further expand our communication base stations across Japan, provide a highly reliable communication service, and work to expand our customer base. The importance of 5G as a communication network is expected to grow as an infrastructure in line with the development of IoT, the society/world in which everything is connected to the Internet. 5G is expected to contribute to solving social issues, with the advantages it offers in terms of high speed, low latency, and multiple simultaneous connections. Rakuten Group aims to establish 5G as a social infrastructure in the 2020s, to not only improve convenience for consumers, but also solve social issues and contribute to regional revitalization through the application of 5G in various fields and the creation of new businesses. The Rakuten Communications Platform is a cloud-native platform that enables communications companies and enterprises around the world to easily build secure and open mobile networks quickly at low cost. We are working diligently to develop the platform with the aim of expanding it globally to government agencies, communications companies, and enterprises. In digital content services such as e-book services and video streaming, we will continue to expand our customer base and business through business operations that leverage synergies with mobile services.

In addition to pursuing growth of individual businesses and maximizing cross-business synergies, we intend to expand the “Rakuten Ecosystem,” not only in Japan but globally, by establishing innovative marketing methods that utilize Rakuten Group’s membership, big data and “Rakuten Points,” utilizing the advertising business that leverages Group synergies, creating a Global ID Platform that provides a single membership ID and loyalty program worldwide, and

raising our brand value through integrating service brands and partnerships with “FC Barcelona,” the NBA’s “Golden State Warriors,” and others. To do this, we must further enhance our global management, and we will work to review our business portfolio to optimize the allocation of management resources, and bolster our system for optimizing technological development on a global scale.

(Note) For a large-scale commercial mobile network (as of October 1, 2019). Research: Stella Associa

2) Management structure

Rakuten Group’s corporate mission is based on the empowerment of individuals and society through innovation and entrepreneurship. We strive for social innovation and enrichment by boosting the growth of as many people as possible, while providing services that ensure a high standard of satisfaction for both users and partner enterprises. In order to achieve this mission, the Group has been implementing various measures with rigorous corporate governance as one of our highest priorities.

The Company supervises management through an Audit & Supervisory Board, majority of which is comprised of Outside Audit & Supervisory Board Members. Additionally, in order to separate the supervisory and executive roles of management, the Company has adopted an Executive Officer System by which the Board retains the responsibility for management decision-making and supervision, while Executive Officers are responsible for the executive functions.

The Company’s Board of Directors, which includes Outside Directors who are highly independent experts from a variety of fields, supervises the execution of business from an objective perspective and engages in casual and multilateral discussions on management. Furthermore, the Company holds meetings, where discussions are held 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, thereby enhancing the effectiveness of corporate governance.

In addition, we have introduced an internal Company System to ensure agile business execution and clear accountability.

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

2. Business Risk and Other Risk Factors

The Group Companies are engaged in a wide range of businesses both in Japan and overseas, and execution of these corporate activities is accompanied by various risks. Described below are the main aspects of the business activities and finances of the Group Companies that are recognized as potential risk factors or that may have an influence on decisions made by investors. However, not all risks arising in the Group Companies are covered. Having identified the probability, timing and frequency of these risks, the policy of the Group Companies’ management is to take steps to prevent occurrence or to take appropriate action as a contingency. However, it is difficult to reasonably foresee the impact of such occurrence on the Group Companies’ business activities, financial performance, financial position and countermeasures the Group Companies might adopt. Therefore, the Group Companies’ position is that decisions to invest in the Company’s securities should be preceded by comprehensive and careful examination of relevant information, including information provided below and elsewhere.

Unless otherwise stated, all forward-looking statements herein are based on judgments by the Group Companies as of December 31, 2020. They are subject to uncertainty and could differ from actual results.

1 Approach of the Group Companies' Management to Risks

The Group Companies define risks as “uncertainty that may affect them in achieving their management goals.” With the aim of increasing the probability of achieving their management goals, the Group Companies identify risks on a regular basis, evaluate their materiality by analyzing the degree of the impact on the future financial performance of the Group Companies as well as the probability of risk occurrence, and formulate and implement countermeasures in response to this evaluation.

2 Risk Management Systems of the Group Companies

The Group Companies have formulated Group Regulations on Risk Management and associated management rules as well as an administrative manual to develop risk management systems for appropriate identification of risks, development and implementation of risk mitigation measures as well as for establishing a cycle of monitoring the progress therein (the “PDCA cycle”). Meanwhile, the status of dealing with particularly critical risks is reported to the management at Board of Directors meetings or at other relevant bodies for consultation. The status of dealing with the Group-wide risks is reported to and discussed at the Group Risk and Compliance Committee that is held four times a year. Furthermore, with respect to information management risk, one of the critical risks, we have developed a framework in compliance with the requirements under the Information Security Management System (ISMS).

We will remain committed to enhancing risk management systems, which contribute to management decision-making and business operation, while carrying on our current activities.

3 Risks Associated with Management Environment and Strategies

(1) Macro-economic Risks

The Group Companies are engaged in a wide range of businesses both in Japan and overseas. The Group's business results are affected by various factors such as overseas economic conditions, social conditions and geopolitical risks, as well as by Japan's economic trends. In the fiscal year ended December 31, 2020, restrictions on movement of people and goods as well as on economic activities in response to the COVID-19 global pandemic led to global economic stagnation. The Group Companies will carry on business expansion, service provision and other activities while closely watching the macroeconomic environment surrounding the Group Companies. However, the outlook for the Japanese and overseas economic environments will remain uncertain. A global economic recession, social disturbance or materialization of geopolitical risks in the future may affect the business activities, financial performance and financial position of the Group Companies.

(2) Impact of the COVID-19 Pandemic

The COVID-19 pandemic is considered a serious risk, as it may affect the business activities, financial performance and financial position of the Group Companies.

In the fiscal year ended December 31, 2020, there was a decrease globally in the opportunities and demand for face-to-face services involving contact between people in such business sectors as tourism, hotels, restaurants and entertainment due to enforced restriction or

request for voluntary restriction on going out, and restriction on travelling overseas to prevent the spread of infection. On the other hand, economic and social digitalization has accelerated, offsetting the decrease in the opportunities and demand for face-to-face services. The Group Companies saw an increase in demand for such services as EC, online image provision, Internet banking and acceptance of insurance applications over the Internet. In the meantime, as people changed their behavior, there was less demand for cash, such as revolving payments on credit cards, cash advances and bank card loans, while demand for cashless payments expanded.

Increases or decreases in the opportunities as well as demand for the Group Companies' services due to these changes may affect the business activities, financial performance and financial position of the Group Companies. To meet the expanding opportunities and demand for non-face-to-face services, the Group Companies will accelerate digitalization and further boost demand for the services provided by the Group Companies. In order to cope with the fewer opportunities and lower demand for face-to-face services and the impact from a reduction in market size and enforced pandemic-related restrictions, on the other hand, we will provide services that users can enjoy with peace of mind, through working on infection controls against COVID-19 in accordance with the latest infection trends.

Fewer opportunities and lower demand for face-to-face services may also lead to diminishing exposure of the Rakuten brand, adversely affecting the favorability toward, and recognition of, the Group Companies. We are committed to raising the brand's profile through our strategies such as informing the public of our initiatives at each of our businesses to support lifestyles constrained by the COVID-19 pandemic, activities to promote social-distancing, production and promotion of logotypes, and measures to facilitate a shift of brand exposure in sponsorship from an offline to online basis.

We are also exposed to the risk of disruption in business operations due to the spread of COVID-19 among officers and employees of the Group Companies. In order to reduce this risk as well as cluster risk, Group Companies are implementing various countermeasures at work spaces at each company, while promoting remote work for officers and employees, depending on the seriousness of the spread of the disease.

However, the future trend of the COVID-19 pandemic remains uncertain. The Group Companies are closely monitoring trends in the spread of the pandemic and working to reduce the impact on the Group Companies while comprehending increases or decreases in opportunities and demand for services. In addition, the Group Companies are implementing safety measures against COVID-19 and contributing to the business through social outreach by raising the brand's profile. However, if these efforts fail to achieve anticipated results, the business activities, financial performance, and financial position of the Group Companies may be affected.

(3) Competitive Environment

The Group Companies are engaged in a wide range of businesses both in Japan and overseas. We consider ourselves to be in fierce competition with numerous rivals in all the businesses operated by the Group Companies. Such competition is likely to intensify when we are confronted by new participants as rivals, including those from other sectors.

The Group Companies aim to expand their services by continuously enhancing their response to customer needs while closely watching movements of their competitors.

However, if the failure to achieve anticipated results following this effort results in a loss of service competitiveness, this may affect the business activities, financial performance and

financial position of the Group Companies.

(4) Technological Changes in the Industry

The Group Companies are engaged in a wide range of businesses both in Japan and overseas. Progress and changes in technology are pronounced in every business the Group Companies operate, and new services and goods are introduced with high frequency.

The Group Companies constantly devise and implement measures for maintaining our competitiveness through endeavors including research into the latest technological and market trends, verification tests with a view to launching new services with technological advantages, and exploring the potential business collaboration with other companies. Should the Group Companies' response be slow for some reason, there is a risk that our services could be seen as obsolete and our competitiveness could deteriorate. Furthermore, even if we respond appropriately, we may incur increased expenses associated with upgrading existing systems and undertaking development of new systems, etc. These market trends and our response capability may therefore have an impact on the business activities, financial performance, and financial position of the Group Companies. In addition, technology that damages the Group Companies' operations may be developed. If this technology becomes widespread, this may also have an impact on the business activities, financial performance and financial position of the Group Companies.

(5) Risks Associated with Management Structure and Business Strategy

1) Risks Associated with Management Structure (Corporate Governance)

Rakuten Group's corporate mission is based on the empowerment of individuals and society through innovation and entrepreneurship. We strive for social innovation and enrichment by boosting the growth of as many people as possible, while providing services that ensure a high standard of satisfaction for both users and partner enterprises. In order to achieve this mission, the Group has been implementing the various measures below, including those involving the management structure, with rigorous corporate governance as one of our highest priorities.

The Company has supervised management through an Audit & Supervisory Board, where a majority of the members are Outside Audit & Supervisory Board Members. Additionally, in order to separate the supervisory and executive roles of management, the Company has adopted an Executive Officer System by which the Board retains responsibility for management decision-making and supervision, while Executive Officers are responsible for the executive functions.

The Company's Board of Directors, which includes Outside Directors who are highly independent experts from a variety of fields, supervises the execution of business from an objective perspective and engages in casual and multilateral discussions on management. Furthermore, the Company holds meetings, where debates are held 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, thereby enhancing the effectiveness of corporate governance.

In addition, we have introduced an internal Company system to ensure agile business execution and clear accountability.

However, a failure to achieve anticipated results following the implementation of the aforementioned measures, including those involving management structure, would affect the business activities, financial performance and financial position of the Group Companies.

2) Risks Associated with Business Strategy

Rakuten Group's business strategy aims to generate synergistic benefits that include maximization of the lifetime value of each member, minimization of customer acquisition cost, and, furthermore, maximization of Group profits. We will achieve this by creating an environment in which members worldwide can continuously use multiple services in the "Rakuten Ecosystem." At the core of this are membership (member information), various data concerning service usage and the Rakuten brand. Under this business strategy, we are utilizing Rakuten Group's membership, big data and the reward program based on "Rakuten Points," in addition to pursuing growth of individual businesses and maximizing cross-business synergies. Specifically, we pursue service enhancement in each business by capitalizing on online as well as offline data based on the membership IDs of more than 100 million users, along with the promotion of cross-border service usage between online and offline realms. However, if the failure to achieve anticipated results following the implementation of the aforementioned measures causes suspension, in whole or in part, of the services marketed by the Group Companies, giving rise to a barrier to the cross-border usage, or if there is a change unfavorable to us in laws and regulations concerning the method for using membership data or the reward program, this may affect the business activities, financial performance and financial position of the Group Companies

3) Risks Relating to Business Expansion and Development

a) Investment and M&A

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

When acquiring a company, the Group Companies seek to avoid risks as much as possible by conducting detailed due diligence concerning the financial position, contractual relationships and other aspects of the potential acquisition. However, it is not always possible to carry out an extensive due diligence process because of circumstances that may surround individual acquisitions and time restrictions, and it is possible that contingent liabilities will be incurred or unrecognized liabilities will come to light after an acquisition. In addition, it is impossible to predict precisely how the characteristics of a newly created service will affect the business activities, financial performance and financial condition of the Group Companies. It may also become impossible to proceed with the new service as anticipated due to changes in the business environment or other factors. In such cases, a greater-than-expected amount of time may be necessary for the recovery of the investment or it may not even be possible to recover the invested capital, or an impairment of goodwill may be required. As a result, the business activities, financial performance and financial condition of the Group Companies may be adversely affected. Furthermore, it is also possible that the integration of information systems and standardization of internal control systems with those of an acquired company may not be carried out successfully or that the executives, employees and customers of an acquired company will be lost after the acquisition. In such cases, the business activities, financial performance and financial condition of the Group Companies may be adversely affected.

Also, for engagements in joint ventures and business alliances, the Group Companies seek to avoid risks concerning operating partners as much as possible, through detailed investigations of their financial performance and condition, and in-depth prior discussion of future business plans and synergistic effects. However, if disagreements arise over the management policies of the two parties after the start of a service, there is a possibility that the anticipated synergistic effects will not be realized. In such cases, the business activities, financial performance and financial

condition of the Group Companies may be adversely affected, and a greater-than-budgeted amount of time may be necessary for the recovery of the investment or it may not even be possible to recover the invested capital.

In addition, the Group Companies engage in investment activities targeting various companies including investments in venture enterprises. If anticipated revenues from such investments are not realized due to changes in the business environment and underperformance, the probability of recovering the invested capital deteriorates, and a part or all of the investments may become losses, affecting the business activities, financial performance and financial condition of the Group Companies.

b) Overseas Business Expansion

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

Meanwhile, development of global services entails a variety of risks, including differences in languages, geographical factors, legal and taxation systems, supervision by regulatory authorities including autonomous regulatory bodies, economic and political instability, communication environment, and differing commercial practices. There are further risks that competition with rival companies that are globally active will intensify, and that changes in the regulations of foreign governments and international organizations will occur without prior notification. Moreover, in their international expansion, when setting up services, the Group Companies are likely to incur costs including costs for setting up corporations in other countries, recruitment costs, system development costs, and for existing services, costs to continually adapt to changes in laws and regulations or to make strategic changes in business models. Group profits may temporarily come under pressure from these costs, and it will take time before new services start to generate stable sales.

For the purpose of responding to these risks, the Group Companies pay close attention to situations in each country and appropriately adapt to local laws and regulations, etc. while suitably establishing a compliance framework in each local group company to work towards legal compliance. In addition, when expanding services, the Group Companies rapidly launch new businesses and flexibly change business models mainly by way of continuous performance management using KPIs and the improved efficiency of revenue structures attained by utilizing the Rakuten Ecosystem, while seeking to reduce risks that may put pressure on the Group Companies' revenue by applying cost controls in a timely and appropriate manner. However, if these risks become real mainly as a consequence of amendments to regulations or systems that may exert significant influences on business models or changes in the competitive market environment, there is a possibility that greater-than-expected expenses may be incurred for response or that business continuity may become difficult, thereby forcing the Group Companies to suspend services and withdraw businesses. In such cases, the business activities, financial performance and financial condition of the Group Companies may be seriously affected.

c) Expansion of Area of Service

The Group Companies provide services in a variety of businesses, primarily the Internet sector where technologies and business models change rapidly. In providing these services, the Group Companies have entered into new areas in order to create new services and to construct business models in line with current trends. When the Group Companies launch a new service, it becomes exposed to risk factors specific to that activity, in addition to risking a considerable amount of prior investments. It is also possible that the Group Companies will be affected by risk factors not listed in this section.

Further, the Group Companies may not be able to achieve results as initially expected, depending on the pace of expansion and the scale of growth of the newly entered market. In addition, the Group Companies may incur a loss due to the disposal and amortization of said business assets in cases such as the discontinuation or withdrawal of a service. When expanding the area of service, the Group Companies strive to reduce risks by taking timely and appropriate measures. However, if these risks become real, the business activities, financial performance and financial condition of the Group Companies may be adversely affected.

4 Business Segment-Specific Operation Risks

(1) Internet Services Segment

1) Marketplace Services

The fundamental format of Internet shopping mall such as Rakuten Ichiba, accommodation booking services such as Rakuten Travel, and online cash-back services such as Rakuten Rewards is to provide venues for trading. The Group Companies are not party to trading contracts, and the rules for these marketplaces stipulate that the Group Companies will incur no liability in the event of disputes between sellers, service providers and purchasers, and that disputes must be settled between the parties. However, to ensure a sound venue for trading through our marketplace services, many Group Companies voluntarily strive to eliminate counterfeit goods or other goods that infringe on rights. Specifically, they clarify rules through guidelines for marketplace products, carry out product screening in advance, conduct regular monitoring, and have set up contact points for the reporting of issues from outside the company. However, if users of our marketplace services engage in activities that defame third parties or infringe their rights, including their intellectual property rights and privacy rights, or if they engage in illegal activities, such as fraud, the resulting liabilities could affect not only the parties responsible for the actions that caused the problem, but could also affect the Group Companies as the venue provider. The brand image of the Group Companies could also be damaged. In recent years, platform business, including marketplace services, have made it easy to achieve network effects and leverage economies of scale. It has been pointed out that this creates an environment conducive to incidents of unfair business practices, including abuses of dominant bargaining positions, and to other incidents that violate the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade. As previously stated, the Group Companies provide sellers, service providers and purchasers with sound and reliable venues for trading and strive to maintain healthy relationships between them. As indicated in 5. Other Risks Accompanying Business Operation, (3) Risks Pertaining to Regulatory Systems, etc., 1) Risks Pertaining to Laws and Regulations and Compliance, the Group Companies consider compliance with laws and regulations as an important corporate responsibility, have created a compliance management system, consult with lawyers and other experts as necessary, engage in discussions with supervisory agencies, and enforce strict legal and regulatory compliance. However, despite these efforts, the potential for violations of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade due to

differences between the views of the Japan Fair Trade Commission and Group Companies cannot be completely eliminated. If a cease and desist order, etc., is received from the Japan Fair Trade Commission as stipulated in the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade, not only could this prevent the implementation of planned measures, but it would also have the potential to damage the Group's social credibility and affect the business activities, financial performance, and financial position of the Group Companies.

The Group Companies strive to continue to provide a system that is convenient and reliable, and to provide marketplaces that are highly attractive to customers. If these efforts do not produce the results expected of them, the number of sellers and service providers could fall and the Group Companies' business activities, financial performance, and financial position could be affected.

2) Accommodation Booking Services

Accommodation booking services such as Rakuten Travel are significantly affected by pandemics and natural disasters. During the fiscal year ended December 31, 2020, the COVID-19 pandemic led not only to requests by national and local governments to refrain from going out, including refraining from travelling, but also to the declaration of a state of emergency. This caused demand for the entire travel sector to fall by a large degree. The future outlook of the COVID-19 pandemic remains uncertain, and there is a possibility that other factors, such as extreme weather or natural disasters, could cause a decline in travel demand. The Group Companies will keep a close eye on COVID-19 pandemic-related trends and will coordinate closely with lodging facilities to prevent the spread of the disease. They will also prepare for envisioned natural disasters and work to minimize their impact on the Group Companies. However, if travel demand falls for some reason, despite these efforts, this may affect the business activities, financial performance, and financial position of the Group Companies.

3) Direct Selling Services

The Group Companies have service categories that involve the direct selling of goods and services to general consumers, such as Rakuten 24(formerly, Soukai Drug and Kenko.com, Rakuten Books, and Rakuten Fashion. In these categories, the Group Companies are a party to sales contracts, and are therefore liable for the quality and content of goods and services. When selling goods or providing services, the Group Companies take all possible steps to ensure compliance with relevant laws and regulations. However, if a defective product is sold or a defective service is provided, the Group Companies could become subject to actions by supervisory agencies. The Group Companies could also incur costs resulting from product recalls, liability for damages or other consequences. There could also be damage to trust among users, leading to a decline in sales. The business activities, financial performance, and financial position of the Group Companies could be affected in such situations.

In addition, although Group Companies control the purchasing and inventory of some products in accordance with demand forecasts created using data, if the anticipated demand does not appear or if product prices considerably decline due to technological innovation or competing products, a write-off of products accounted for as inventory may need to be recorded in the Group Companies' financial accounts. This may affect the business activities, financial performance, and financial position of the Group Companies.

4) Advertising Business

Net sales in digital advertising related business account for a certain percentage of overall Group sales. However, since the advertising market tends to be particularly susceptible to the impact of economic trends, budget allocation by advertisers may be lowered if the economy weakens.

In addition, the digital advertising field is particularly competitive due to the emergence of diverse advertising methods made possible through advances in technology allowing for numerous new entrants into the field.

Privacy-related restrictions and changes may be applied to the technical methods such as those used by advertising distribution platforms, and these may result in a need to make changes to methods of delivering advertisement that were conventionally possible, as well as the need to engage in further technical development.

With regard to the business environment, while the Group Companies are taking various measures in order to respond to this competition and change in the environment, including greater use of advertising on their own proprietary platforms and the development of technologies in the digital advertising field, the Group Companies' services could lose their competitiveness and their business activities, financial performance, and financial position could be affected if these measures are not sufficient.

5) Logistics Business

The Group Companies are focused on the improvement of delivery and shipping quality through measures including an expansion of the logistics agency service for clients, in order to further enhance the satisfaction of users and clients, who are sellers or service providers, of services such as Rakuten Ichiba.

In their logistics business, Group Companies face the risk of distribution center operations being interrupted by system failures that prevent the performance of logistics operations, accidents within distribution centers, traffic accidents when making deliveries, the spread of infectious diseases including COVID-19 within the logistics network, or natural disasters. The Group Companies have implemented measures to prevent system outages, implemented permanent measures for addressing the root causes of outages, established health and safety committees for ensuring safe operations within warehouses and during delivery, and created a risk management system that is prepared to handle natural disasters. In particular, in order to combat the spread of COVID-19 through deliveries, the Group Companies are using non-face-to-face delivery methods such as unattended delivery. However, if these measures prove insufficient, the business activities, financial performance, and financial position of the Group Companies could be affected. The Group Companies utilize rental properties as facilities for expanding distribution centers and make capital investments for equipment inside warehouses based on orders anticipated in the future. However, in addition to that, such expenditure could possibly become a prior investment since it takes a certain period of time to build such facilities and start operations. If the actual revenue from logistic agency service falls below the forecast, and is unable to make up for the prior investment, the business activities, financial performance, and financial position of the Group Companies could be adversely affected. Furthermore, the disposal or amortization of said business assets in the case of transfer or discontinuation of such facilities may affect the business activities, financial performance, and financial position of the Group Companies.

(2) FinTech Segment

1) Risks Shared by FinTech Group Companies - Regulatory Requirements

Rakuten Card Co., Ltd., Rakuten Bank, Ltd., Rakuten Securities, Inc., Rakuten Life Insurance Co., Ltd., Rakuten General Insurance Co., Ltd. and other Group Companies that offer finance-related services (hereinafter "Group Financial Companies") are subject to and comply with the provisions of laws covering various industries, laws and regulations relating to financing activities, as well as the guidelines of supervisory agencies, and the rules imposed by autonomous regulatory bodies,

such as financial instruments exchanges and industry organizations. If in the future, with respect to the permissions required to provide services, the Group Financial Companies are subject to license revocation or other actions for any reason, or if they are requested to suspend business operations, the business activities, financial performance, and financial position of the Group Companies could be affected. Furthermore, if the establishment and amendment of laws and regulations makes it easier for other companies to enter the market, or if the Group Companies' services become subject to stricter restrictions, the Group Financial Companies may need to incur unexpected additional costs or overhaul their business models in order to respond to intensified competition or stricter restrictions. If changes to or relaxation of laws and regulations have favorable effect on the provision of said services, this could provide an additional boost to business operations, which could seriously affect the business activities, financial performance, and financial position of the Group Companies.

The Group Financial Companies are deemed to be a financial conglomerate as defined in the Cabinet Office Ordinance for Organization of the Financial Services Agency. Based on the former Guidelines for Supervision of Financial Conglomerates issued by the Financial Services Agency, a Group governance framework has been created and the soundness and appropriateness of operations is ensured. However, if there are any defects in the Group governance system, for any reason, and administrative directives are issued by a regulatory agency, this may affect the business activities, financial performance, and financial position of the Group Companies. Meanwhile, Rakuten Payment, Inc., Rakuten Wallet, Inc., and other companies not deemed to be financial conglomerate members have independently established basic internal control policies, risk management rules, and other internal regulations, as well as establishing internal control systems by referring to the internal controls related to financial reporting under the Financial Instruments and Exchange Act. However, if administrative directives are issued by a regulatory agency for any reason, this may affect the business activities, financial performance, and financial position of the Group Companies.

2) Risks Shared by FinTech Group Companies - Market Risks

The business operations of each of the Group Financial Companies are subject to risks involving fluctuations in the market value of assets and liabilities. The Group Financial Companies appropriately implement Asset and Liability Management (ALM), but if market trends or other factors result in large changes in interest rates, they may not be able to deal with them appropriately as expected. Such situations may affect the business activities, financial performance, and financial position of the Group Companies.

The Group Financial Companies also possess loan claims for individuals and corporations, government bonds, corporate bonds and other bonds. If the economic conditions deteriorate and the credit situation of debtors or bond issuers deteriorates significantly, the credit status of the loan claims and held bonds could fall and default of the principal and interest could occur. Furthermore, the recording of allowances for the loan claims and falling market values for held bonds could adversely affect the business activities, financial performance, and financial position of the Group Companies. The derivative transactions the Group Companies enter to hedge market risks, such as interest rate swaps, currency swaps, foreign exchange forward contracts, and options, are exposed to the risk of counterparty risk (the risk of the counterparty declaring bankruptcy and being unable to pay as contractually stipulated). To counter these risks, the Group Financial Companies perform investigations as necessary of the credit situation of the loan claims and held bonds, as well as counterparties to derivative transactions, and strive to respond promptly. However, if the response is not sufficiently rapid and the risks manifest, this may affect the business activities, financial performance, and financial position of the Group Companies.

For other, market risks faced by all Group Companies, including the Group Financial Companies, please see “5. Other Risks Accompanying Business Operation (5) Risks Pertaining to Market Risks.”

3) Risks for Individual FinTech Group Companies

There are also risks specific to individual business operations by Group Financial Companies. Matters that are considered especially important for investors when making investment decisions are described below. These risks are not mutually independent. When a situation arises, it can result in the simultaneous manifestation of multiple risks.

a) Rakuten Card Co., Ltd.

Rakuten Card Co., Ltd. provides member shop contract services for credit card settlements, and interchange fees from member shops constitute the source of revenue in these services. It may experience an outflow of member shops or a decline in interchange fees from member shops due to intensifying competition. Rakuten Card Co., Ltd. addresses this risk by working to reduce costs through constant improvement of business operation. However, if these efforts are not sufficiently successful, or Rakuten Card Co., Ltd. falls behind competitors, it may result in a deterioration in the profit margin of the commission business or a decrease in the number of member shops, which may affect the business activities, financial performance, and financial position of the Group Companies. To prevent credit card fraud, etc., the Group Companies perform credit card usage monitoring 24 hours a day, but an unexpectedly large amount of credit card fraud could likewise affect the Group Companies.

Deteriorating economic conditions could cause a decline in the profitability of underwritten guarantees due to an increase in personal bankruptcies and the number of heavily-indebted creditors, a downturn in consumer spending and demand for Rakuten Card Co., Ltd. services, and an increase in receivables for claim. To address these risks, Rakuten Card Co., Ltd. performs appropriate credit management, but if the deterioration of economic conditions exceeds our assumptions, it may affect the business activities, financial performance, and financial position of the Group Companies.

Furthermore, Rakuten Card Co., Ltd. also engages in real estate investment, and there is a possibility of changes in the value of the assets in which it has invested. The potential impact of these changes to the business activities, financial performance, and financial position of the Group Companies is recognized as being limited

b) Rakuten Bank, Ltd.

Rakuten Bank, Ltd., is subject to oversight by the Financial Services Agency in accordance with the Banking Law, the Financial Instruments and Exchange Act, and other relevant laws and regulations. It is required by laws and regulations to maintain a certain equity ratio and pays close attention to ensure that it maintains a sound financial position and its equity ratio does not fall below the minimum equity ratio. However, if a decline in its financial position causes its equity ratio to fall below the stipulated equity ratio, it could be subject to administrative sanctions by the Financial Services Agency, including the total or partial suspension of business activities. Furthermore, it engages in foreign exchange margin contracts as a registered financial institution, and engages in business operations while taking care to comply with the Financial Instruments and Exchange Act, other relevant laws and regulations, and the regulations of the Financial Futures Association of Japan, and to never engage in prohibited behavior. However, if these efforts and measures are insufficient, this could cause a loss of trust among customers and affect the

business activities, financial performance, and financial position of the Group Companies.

In addition, Rakuten Bank, Ltd., provides Internet banking services, and customers are able to make withdrawals from ordinary deposit accounts, close time deposits, and transfer or remit funds to other financial institutions via the Internet. A deterioration of the economic climate or unforeseeable circumstances that harm the reputation of Rakuten Bank, Ltd. or the Group Companies could cause deposit outflows to occur more rapidly than for other financial institutions. To address this risk, Rakuten Bank, Ltd., performs regular monitoring to prevent incidents from occurring and swiftly detect if incidents do occur, and conducts internal auditing as, internal control measures. However, if these measures fail to produce the anticipated benefits, the business activities, financial performance, and financial position of the Group Companies could be affected.

Rakuten Bank, Ltd., also secures appropriate revenue and manages marketing costs, but if the business climate becomes more competitive and this causes a decline in loan interest rates, an increase in deposit procurement costs, high marketing costs, etc., this may affect the business activities, financial performance, and financial position of the Group Companies.

Rakuten Bank, Ltd. does not have its own ATM network, so if its relationship with the other financial institutions with which it has concluded ATM utilization agreements deteriorates, or if there is an outage in these services and related systems, this could adversely affect the business activities, financial performance, and financial position of the Group Companies.

c) Rakuten Securities, Inc.

Rakuten Securities, Inc. is registered as a financial instruments business in accordance with the Financial Instruments and Exchange Act, and is subject to the provisions of the Financial Instruments and Exchange Act, its Enforcement Order, and other relevant laws and regulations. It accordingly performs regular monitoring, implements internal control measures such as internal auditing, and complies with laws and regulations. In addition, it is required by laws and regulations to maintain a certain equity ratio and strives to maintain a sound financial position. However, if its efforts fail to produce the anticipated benefits or its equity ratio falls below the stipulated equity ratio, it could be subject to administrative sanctions by the Financial Services Agency, including the total or partial suspension of business activities.

In order to secure appropriate revenue, Rakuten Securities, Inc. performs trend studies of competitors and strives to maintain its revenue level. However, if the business climate becomes more competitive and this causes a decline in commissions, etc., this could adversely affect profitability. The COVID-19 pandemic is having an enormous impact on the global economy, and may increase volatility within the financial market. If financial market volatility increases, this could lead to an increase in domestic and foreign stock trading volume, and may affect the business activities, financial performance, and financial position of the Group Companies.

d) Rakuten Life Insurance Co., Ltd. and Rakuten General Insurance Co., Ltd.

Rakuten Life Insurance Co., Ltd. and Rakuten General Insurance Co., Ltd. are subject to oversight by the Financial Services Agency in accordance with the Insurance Business Act and other relevant laws and regulations. The Insurance Business Act and other relevant laws and regulations, whose primary objective is the protection of policyholders, place restrictions on scopes of business and asset management methods and stipulate regulations concerning the accumulation of reserves and the maintaining of solvency margin ratios, etc. Rakuten Life Insurance Co., Ltd. and Rakuten General Insurance Co., Ltd. have created internal regulations, etc., defined risk tolerance with regard to solvency margin ratios, etc., and carry out monitoring and management, establishing a system capable of responding to situations as necessary. However, if administrative directives are issued by the Financial Services Agency because major discrepancies occur in business

operation or asset management assumptions for any reason, resulting in a failure to properly maintain such ratios, this may affect the business activities, financial performance, and financial position of the Group Companies.

Rakuten Life Insurance Co., Ltd., sells insurance products such as term insurance and health insurance. Rakuten General Insurance Co., Ltd. sells insurance products such as automobile insurance and fire insurance. Their primary sources of revenue are insurance premiums paid by policyholders and earnings from the management of assets using such revenue as a source of funds. They carry out various measures aimed at increasing product sales and strive to improve their policy renewal rates. However, if factors such as declines in the economic climate cause the number of in-force contracts to decrease dramatically due to a lower number of new contracts and an unexpected increase in cancellations, this may affect the business activities, financial performance, and financial position of the Group Companies. With regard to asset management, Rakuten Life Insurance Co., Ltd. and Rakuten General Insurance Co., Ltd. strive to manage risk appropriately by selling and avoiding securities with a high risk of price fluctuation and by managing monetary limits for risks based on risk tolerance. However, if the amount of price fluctuation for owned foreign and/or domestic securities, etc., exceeds our assumptions, this may affect the business activities, financial performance, and financial position of the Group Companies.

In addition, they utilize reinsurance and hold a catastrophe reserve, etc., in preparation for large-scale natural disasters or pandemics, but the business activities, financial performance, and financial position of the Group Companies may be affected if the frequency or scale of insurance claim payments exceeds forecasts.

e) Rakuten Payment, Inc.

Rakuten Payment, Inc. provides cashless payment services such as QR code payment, prepaid payment, and point payment services. The competitive environment is fierce for cashless payment services, and Rakuten Payment, Inc. secures appropriate revenue and manages marketing costs as it provides these services. Intensified marketing competition with competitors may result in lower rates or temporary reductions of interchange fee from member shops, or may lead to significant marketing costs. If this occurs, the business activities, financial performance, and financial position of the Group Companies may be affected.

If the cashless payment service-related systems used by Rakuten Payment, Inc. suffer an outage or unauthorized access, it could harm the reputation of the company and the Group Companies and the trust placed in their security, and could lead to the withdrawal of users and business partners. For cashless payment services, in particular, users can easily switch to other companies' payment methods, so the amount of user withdrawal and the corresponding decrease in transaction value could be significant. To prevent cashless payment system outages and unauthorized access, Rakuten Payment, Inc. strives to maintain system redundancy (creating backup systems) and enhance security, but if these measures fail to produce the anticipated benefits, the business activities, financial performance, and financial position of the Group Companies could be adversely affected.

f) Rakuten Wallet, Inc.

Rakuten Wallet, Inc. provides transaction services as an exchange for crypto assets (virtual currencies) such as Bitcoin and Ethereum. However, the transaction price of crypto assets (virtual currencies) can fluctuate significantly within a short period of time, and transaction demand may also fluctuate significantly in line with transaction price. Moreover, transaction demand may also fluctuate in the event of the formulation or revision of tax laws that affect investors in crypto assets (virtual currencies). The business activities, financial performance, and financial position of the

Group Companies may be affected if there is a significant drop in transaction demand.

Rakuten Wallet, Inc. is registered as a financial instruments business in accordance with the Financial Instruments and Exchange Act, and is subject to the provisions of the Financial Instruments and Exchange Act, its Enforcement Order, and other relevant laws and regulations. If its legally mandated equity ratio falls below the minimum required equity ratio, it could be subject to administrative sanctions by the Financial Services Agency, including the total or partial suspension of business activities.

For the purpose of preserving assets of customers, Rakuten Wallet, Inc. manages money received from customers separately from its own funds, by utilizing bank deposits through trust accounts. It also keeps crypto assets (virtual currencies) owned by customers in cold wallets (wallets that are not connected to external networks), and manages private keys using multi-signatures with exceptions for some currencies. In addition, two-step authentication is required for login, withdrawal, and delivery. However, if these risk management measures do not function effectively and the leakage of customer assets occur, the business activities, financial performance, and financial position of the Group Companies may be affected.

(3) Mobile Segment

1) Mobile Business

a) Mobile Business - Regulatory Requirements

The provision of the communication service by Rakuten Mobile, Inc. may be affected directly or indirectly by the revision or abolition of laws and regulations, security-related restrictions, business or investment licenses, etc., newly established policies, or by policy making, etc., relating to the telecommunications business in Japan and in countries in which Rakuten Mobile, Inc. plans to do business. Also, to ensure the efficient provision of telecommunications services, Rakuten Mobile, Inc. has concluded interconnection agreements providing for reciprocal connections between its telecommunications facilities and those of other telecommunications providers. Telecommunications carriers that own telecommunications facilities are, in principle, required to allow other providers to connect to those facilities. However, revisions to the Telecommunications Business Act, etc., could cause conditions to change in ways disadvantageous to this company, such as by the abolition or relaxation of this requirement, resulting in increased usage charges or interconnection charges.

The company collaborates with the Group Companies to keep close watch of trends in the revision and abolition of laws and regulations, or the establishment of new policies, etc., relating to the telecommunications businesses in Japan and in countries in which Rakuten Mobile, Inc. plans to do business. When appropriate, it consults in advance with lawyers, other outside experts, and authorities to acquire necessary information at an early stage and take appropriate measures such as promptly changing operation methods to conform to the relevant trends, and it monitors the implementation status of these measures. By implementing necessary measures in this way, it strives to reduce risk, but it is difficult to perfectly predict when said risks will manifest, and there is no guarantee that the risks can be completely avoided.

Such revisions or abolitions of laws and regulations or establishment of new policies, etc. may restrict the provision of services by Rakuten Mobile, Inc. and may result in the incurring of unanticipated expenses. In addition, Rakuten Mobile, Inc. may be subject to administrative penalties, etc., from administrative authorities if it violates these laws and regulations, etc. In that case, the business activities, financial performance, and financial position of the Group Companies could be adversely affected through the decline of their credibility and restrictions on their business expansion.

- b) Mobile Business - Competition with Other Business Operators, Market and Business Environment
There are major competitors with solid customer bases in this business market, and price competition with Mobile Virtual Network Operators (MVNO) is emerging. In this business environment, Rakuten Mobile, Inc. provides users with communication services that leverage the low-cost, high-speed communications environments it produces by using its unique, innovative technologies to create virtual wireless networks. It uses the Group Companies' Rakuten Ecosystem for easy access to other attractive services offered by Group Companies in order to differentiate itself from competitors and acquire new users. However, major competitors have also begun to announce low-cost communication services, and price competition is further intensifying. As the entire mobile communications industry is confronted with tremendous structural changes, if, despite promoting these measures, Rakuten Mobile, Inc. cannot leverage the advantages of the Group Companies and, conversely, competitors both leverage their own existing advantages and roll out low-cost communication services, etc., it may be difficult for Rakuten Mobile, Inc. to acquire new users and maintain existing users, and Rakuten Mobile, Inc. and the Group Companies may be unable to provide services and related products as expected.

Furthermore, with the advancing homogenization of services provided by telecommunications operators and spread of low-cost SIM services by MVNO companies, the business environment is changing substantially, with the expansion of telecommunications operators providing services in business domains other than telecommunications for the purposes of securing new revenues. Under these circumstances, if, despite the aforementioned measures, Rakuten Mobile, Inc. and the Group Companies are unable to successfully compete with other telecommunications business operators, they may not be able to generate revenues as planned.

- c) Mobile Business - Equipment
In order to expand and improve the quality of Mobile Network Operator (MNO) service by Rakuten Mobile, Inc., it carries out discussions with landowners in order to set up base stations as well as transmission and switching telecommunications facilities, which will link telecommunications lines owned by other telecommunications businesses, along with the procurement of telecommunications and network equipment in required for the construction of the network. If these discussions, etc., do not progress as planned, Rakuten Mobile, Inc. and the Group Companies may not be able to expand services as planned and additional expenses may arise.
- d) Mobile Business - Stable Provision of Communication Services
Rakuten Mobile, Inc. recognizes its social mission of supplying communications, an element of social infrastructure, and strives to supply stable communication services. It has defined a basic policy on crisis management and formulated a business continuity plan (BCP) based on this policy. It engages in initial response in the event of a crisis and strives to continue core operations without interruption and swiftly restore normal operations. At the same time, Rakuten Mobile, Inc. strives to improve network quality and security and implements countermeasures against external attacks. However, it is possible that telecommunications failures or other unforeseeable circumstances could occur due to external attacks such as cyberattacks significantly exceeding the forecasts of Rakuten Mobile, Inc., natural disasters, accidents, and the like. If these were to occur, Rakuten Mobile, Inc. could be forced to limit the services it provides or temporarily suspend service provision, which could adversely affect the business activities, financial performance, and financial position of the Group Companies.

e) Mobile Business - Third-Party Alliances

Rakuten Mobile, Inc. is expanding its base stations as well as transmission and switching telecommunications facilities, but in some regions it uses the lines of other telecommunications providers (roaming providers) to offer services (roaming services). It considers the state of expansion of owned base stations and telecommunications facilities on a per-region basis, engages in deliberations with roaming providers regarding whether or not to continue alliances, and strives to provide stable service. However, if, for some reason, the roaming providers with which Rakuten Mobile, Inc. has entered alliances raise line usage fees or terminate the alliances, or if the telecommunications facilities of roaming providers can no longer be used due to natural disasters, etc., Rakuten Mobile, Inc. may be forced to change the services it provides, or these situations may result in service provision outages. Such situations may affect the business activities, financial performance, and financial position of the Group Companies.

f) Mobile Business - New Business Development

Rakuten Mobile, Inc. aims to provide government agencies, telecommunications providers, and companies around the world with Rakuten Communications Platform (RCP), a cloud native platform that makes it easy for telecommunications providers, companies, and other users to create safe, open mobile networks quickly and for little expense. It is carrying out development of RCP while controlling costs. It is also carrying out marketing with the aim of identifying latent customer needs and striving to develop a product that offers the performance desired of it. However, if Rakuten Mobile, Inc. needs to change its development plans for reasons such as changes in technical or latent customer needs, and this increases the development workload, it would cause development delays and result in the postponement of the planned RCP launch. In addition, if development delays, launch delays, or measures taken to respond to latent customer needs result in the incurring of substantial costs that exceed initial forecasts, this could push back the initially planned date on which Rakuten Mobile, Inc. and the Group Companies would achieve profitability. Such situations may affect the business activities, financial performance, and financial position of the Group Companies.

2) Energy Business

In its electric power retailing business, Rakuten Mobile, Inc. procures power from the wholesale power trading market, and it is therefore subject to the risk of electric power procurement price fluctuations.

To prepare itself for the possibility of power procurement price fluctuations in the wholesale power trading market, Rakuten Mobile, Inc. has concluded fixed rate power procurement contracts for some of the power it procures. However, there is no guarantee that the risk of power procurement price fluctuations can be completely avoided, and the business activities, financial performance, and financial position of the Group Companies may be affected in the event that Rakuten Mobile, Inc.'s power procurement prices rise due to fluctuations in power trading prices in the wholesale power trading market.

3) Content Business

a) Digital Content Services

The Group Companies provide digital contents such as e-books, video streaming services and music streaming services. When these digital content materials are procured, their service format must often be converted into a service format provided by the Group Companies. This is in addition to licensing fees for films as well as the possible requirement of an advance payment of a minimum

guarantee amount to the licensors. Such prior activities and expenses may produce temporary content procurement-related expenses, and if the revenue from the contents services falls below the costs of supply, the revenue of this business segment could be adversely affected. When engaging in contract negotiations with licensors, etc., the Group Companies strive to use a sales proceed allocation model for licensor payments whenever possible, instead of minimum guarantee money. Furthermore, taking into consideration the voluntary suspension of film releases and events and the reduction in the scale of film releases and events in order to combat the spread of COVID-19, the Group Companies are striving to secure new revenue sources by further promoting the transition of digital content business-related events from offline to online formats. In addition, the Group Companies are using the Rakuten Ecosystem to engage in business that leverages synergy with the Group's mobile business through the easy access that the mobile handsets sold by Rakuten Mobile, Inc. provide to the digital content of the Group Companies. However, there is no guarantee that these measures will have the anticipated effects, and if they do not, this may affect the business activities, financial performance, and financial position of the Group Companies.

b) Ticket Business

Due to requests from the government from late February 2020 onwards to refrain from holding events in order to combat the spread of COVID-19, numerous film releases and events have been cancelled or postponed nationwide, and a great number of ticket refunds have been issued. COVID-19 continues to spread, with second and third waves of infection, and the outlook for future film releases and events remains unclear. To respond to this situation, the Group Companies are formulating and implementing strategies, primarily focused on shifting to online formats, including online ticket sales for live events without live audiences. However, the Group Companies' business activities, financial performance, and financial position could be affected if the number of marketing plans for film releases and events continues to fall due to the trend of the COVID-19 pandemic, and planned film releases and events are cancelled or postponed.

5 Other Risks Accompanying Business Operation

(1) Risks Pertaining to Information Security

1) Risks Pertaining to Personal Information

When users use any of the services provided by the Group Companies as represented by Rakuten Ichiba, the Group Companies assign the users Rakuten IDs. The Group Companies hold these data and engage in a wide range of businesses both in Japan and overseas. The Group Companies treat the Rakuten IDs as personal information linked to the users' names and addresses, and recognize the Rakuten IDs as indispensable assets for business expansion, together with information assets consisting of various types of hardware, software, and other information systems of the Group Companies. Accordingly, the Group Companies make it a top priority to enable all users to safely use the Group Companies' services and strive to take various measures such as the establishment of the information security management system (ISMS) with a view to developing information security systems and protecting personal information.

In addition, when expanding businesses in each country, the Group Companies ensure thorough conformity with local laws and regulations related to personal information protection. In particular, with the aim to conforming to GDPR (General Data Protection Regulation), a best practice for personal information protection, the Group Companies have introduced a world-class privacy protection standard known as the Binding Corporate Rules (BCR), and have received formal approval from the European data-protection organization. Further, in the businesses that handle payment cards, including credit cards, the Group Companies ensure thorough compliance

with PCI DSS (Payment Card Industry Data Security Standard), an international standard for the security of card membership data. In addition, some of the Group Companies operate in conformance with the Japan Industrial Standards (JIS Q 15001: [Personal Information Protection Management System - Requirements]), have been certified by external organizations as business operators that have developed systems to take appropriate measures to protect personal information, and have been granted the PrivacyMark.

However, privacy-related laws and regulations, etc. in each country, including laws and regulations related to personal information management, laws and regulations related to global data transfers, and laws and regulations related to information security, have been getting more and more sophisticated and complicated. Failure to respond to these in a timely and appropriate manner and consequent violations of those laws and regulations, etc. could give rise to reputation risks and may lead to operation suspension orders or disputes involving litigation. In addition, any failure of the Group Companies to smoothly and appropriately respond to privacy-related laws and regulations or the industrial voluntary regulatory reinforcements could affect the data-utilizing businesses and revenue of the Group Companies.

For the purpose of avoiding the occurrence of these risks, the Group Companies have developed in-house rules, thoroughly publicized knowledge on laws and regulations related to privacy, and implemented in-house training, together with the above-mentioned initiatives. In addition, the Group Companies work for the early detection of possible violations by establishing communication and consultation systems, and strive to apply the contents of laws and regulations, etc. to information security systems and business operations in a prompt and appropriate manner through close cooperation between relevant departments and departments in charge of privacy. However, if these risks become real, the Group's social credibility may be damaged, and the business activities, financial performance and financial condition of the Group Companies may be seriously affected, mainly due to the withdrawal of users and business partners and the accrual of compensation expenses.

2) Risks Pertaining to Cyber Security Risk

Many of the Group Companies' services are provided by the use of telecommunications networks linking computer systems. Therefore, there lies the possibility that the Group Companies might be unable to ensure information system availability or information confidentiality or integrity due to reasons such as failure or defects affecting the hardware or software in the network or the computer system, computer viruses, phishing emails or other malware, or criminal activities such as external access to computer resources of the Group Companies using illegal methods. In such cases, there also arises a possibility that illegal usage of the Group Companies' services, deletion or fraudulent procurement of important data and others might occur.

For the purpose of avoiding or lowering the occurrence of these risks, the Group Companies have strengthened monitoring systems and have taken a variety of technological and physical measures. However, if these risks become real, there are possibilities that the Group's social credibility may be damaged, that users and business partners may withdraw, that compensation for damages, etc. may be demanded, and further, that the Group Companies may be subject to administrative penalties, etc., from administrative authorities. In such cases, the business activities, financial performance and financial condition of the Group Companies may be seriously affected.

3) Risks Pertaining to Trade Secrets and Other Information Leaks

The Group Companies are subject to the risk that trade secrets or other information of the Group Companies will be leaked mainly as a consequence of defects in the course of operations by officers, employees, subcontractors and others, or the abuse of access rights. If a resulting leaked

trade secret or the like is abused by external third parties or is used by competitors, there is a possibility that the Group's income opportunities will be lost. For the purpose of avoiding or lowering the occurrence of these risks, the Group Companies have strengthened monitoring systems by developing management structure and have taken a variety of technological and physical measures, in addition to providing education and enlightening teaching activities for officers, employees, subcontractors and others. However, if these risks become real, there are possibilities that the Group's social credibility may be damaged, that users and business partners may withdraw, that compensation for damages, etc. may be demanded, and further, that the Group Companies may be subject to administrative penalties, etc., from administrative authorities. In such cases, there is a possibility that the business activities, financial performance and financial condition of the Group Companies may be seriously affected.

(2) Risks Pertaining to Information System

Many of the Group Companies' services are provided by the use of telecommunications networks linking computer systems. The Group Companies seek to make the most up-to-date responses using state-of-the-art technologies as much as applicable, and thereby endeavors to operate telecommunication networks normally so as not to impede the provision of services. However, there lies the possibility that even these measures will create vulnerabilities or deficiencies in the Group's information system due to reasons such as failure or defects affecting the hardware or software in the telecommunication network or the computer system. In addition, there lies the possibility that troubles might occur in the provision of normal services stemming from human operational errors, or that illegal usage of the Group Companies' services, deletion of important data, fraudulent procurement or leakage of confidential information, etc. might occur.

For the purpose of avoiding or lowering the occurrence of these risks, the Group Companies have strengthened monitoring systems and have taken a variety of technological and physical measures. However, if these risks become real, there are possibilities that incidents, such as a temporary suspension of the Group's system, will occur, that users and business partners will lose confidence and withdraw, or that users and business partners will demand compensation for damages, etc. for losses they have incurred due to system stoppage. In addition, there is a possibility that the Group Companies may be subject to administrative penalties, etc., from administrative authorities. In such cases, there are possibilities that the Group's social credibility may be damaged, and that the business activities, financial performance and financial condition of the Group Companies may be significantly affected.

(3) Risks Pertaining to Regulatory Systems, etc.

1) Risks Pertaining to Laws and Regulations and Compliance

The Group Companies are engaged in a wide range of businesses both in Japan and overseas. Each country or region has its own laws and regulations, and various rules, etc. to be complied with in relation to a variety of business activities, and the Group Companies are subject to the laws and regulations, and various rules, etc. described in the respective items of the FinTech segment and mobile segment, as stated previously, as well as various laws and regulations, rules, etc. in Japan and overseas regarding personal information and privacy protection, consumer protection, fair competition, prohibition of corruption, the natural environment, labor environment, crime prevention, disclosure, appropriate payment of taxes, human rights, export and import, investment, and foreign exchange, not to mention the laws and regulations covering various industries, including the telecommunications business, the transportation industry and funds transfer services. Among other things, regulations on digital platform operators, the regulatory systems regarding

personal information management in each country, the regulatory systems regarding the global transfer of data, and the regulatory systems regarding information security, etc. are recognized as the most important of the laws and regulations, rules, etc. that may influence the Group Companies' business operations in particular.

If the Group Companies' business activities become subject to new restrictions or if the existing regulations are enforced on a more stringent basis due to the establishment and amendment of various relevant laws and regulations, or the formulation or revision of new guidelines and voluntary rules, or for other reasons, there could be an impact on the Group Companies' business activities, financial performance and financial position.

The Group Companies consider compliance with laws and regulations as an important corporate responsibility, and have been enforcing strict compliance by strengthening the Group's compliance framework through: operational audits carried out by the Internal Audit Department (an independent organizational unit under the direct control of the Representative Director and President); Group-wide initiatives promoting compliance under the leadership of the Chief Operating Officer (COO), a dedicated full-time Function Chief Compliance Officer ("Function CCO") who, under the leadership of the COO, oversees the integration of Group-wide compliance management, and Company Compliance Officers appointed according to the internal Company System structure of the Company; and by reporting the status of compliance initiatives to the Group Risk and Compliance Committee and the Board of Directors. However, despite these efforts, compliance risks (including the risk that the views of the supervisory authorities and the Group Companies differ) and the associated risk of damage to the Group's social credibility cannot be completely eliminated. If the Group Companies are unable to handle such risks, including situations attributable to partners in addition to the Group Companies, the business activities, financial performance and financial condition of the Group Companies could be affected.

2) Risks Pertaining to Litigation, etc.

The Group Companies could be exposed to litigation and other claims, administrative penalties, or charges amounting to large sums if merchants and service providers, purchasers, service users or other users engage in illegal activities or get involved in disputes, if losses are incurred by merchants or, service providers, purchasers, service users or other users as a result of system failures or other situations, or if any of the various regulatory restrictions imposed by the supervisory authorities are violated. As for mobile phones, e-book readers and other products sold by Rakuten Mobile, Inc. and Rakuten Kobo Inc., there is a possibility that product defects or other deficiencies may arise, which may cause these Group Companies to incur product liability or other obligations, in their positions as manufacturers or companies that entrust manufacturing to third parties. Furthermore, there is a possibility that litigation or other actions unpredictable at present may be filed due to new contingencies or business risks that have not yet become real, which may cause these companies to assume obligations to pay large sums to compensate for damages. Meanwhile, if the Group Companies' rights are infringed in some way by third parties or damaged by the actions of third parties, it is possible that the Group Companies will not be protected from the infringement of their rights or that substantial costs will be incurred due to litigation or other actions to protect those rights.

Although the Group Companies seek to provide services in an appropriate and legitimate manner mainly through carrying out preliminary consultations with lawyers and other external specialists and authorities as needed, it is difficult to eliminate the possibility of all litigation, etc. If these risks become real, there are possibilities that special damages will accrue, depending on the details or amounts demanded in the litigation, etc., that the Group's social credibility will be

damaged, and that users and business partners will withdraw. Ultimately, the business activities, financial performance and financial condition of the Group Companies could be affected.

(4) Risks Pertaining to Intangible Assets

1) Risks Pertaining to the Preservation and Promotion of the Rakuten Brand

The Group is striving to establish the Rakuten brand through a variety of services and advertising activities, and recognizes that it has gained a certain level of recognition among its users and others. To further expand the scale of businesses, the Group Companies are proceeding with the integration of their various brands into the Rakuten brand, and integrating their member IDs by unifying membership databases and developing a common reward program. Although the Group has developed a thorough plan in advance regarding measures and expenses for brand expansion and recognition, expenses may exceed the plan if the measures fail to achieve the desired results. In addition, changes to brand names, logos and member IDs, which are conducted as part of the process of the above measures, could lead to loss of loyalty among existing members or cause them to withdraw from member organizations. If the promotion of brand integration fails to produce the anticipated benefits, the business activities, financial performance and financial position of the Group Companies could be affected. Moreover, measures of each service brand will affect all Group Companies due to the integration of brands. Therefore, the reliability and brand value of the Group may be damaged in the event where incidents are discovered for one of its service brands, and could have adverse effects on all Group Companies. Such incidents include issues during the service development, fraud committed by officers and employees, or other such circumstances. In such cases, the business activities, financial performance and financial condition of the Group Companies could be seriously affected.

2) Risks Pertaining to Intellectual Property

Since all of the businesses developed by the Group Companies face rapid progress and changes in technological fields, the Group Companies consider that, for their continuous business operations, it is indispensable to protect their technologies, brand, content in the countries where they proceed with business development. To that end, the Group Companies acquire intellectual property rights such as patents, trademarks, copyrights and domain names, while receiving licenses granted to them by third parties as necessary.

However, there is a possibility that the Group Companies will be unable to protect their technologies, brands and content used by the Group Companies without being able to acquire intellectual property. Furthermore, there are possibilities that allegations of infringements of intellectual property rights, etc. raised by third parties will cause expenses or losses to accrue for defense against allegations or dispute resolutions, that a large amount of expenses mainly for acquiring licenses for intellectual property rights will be accrued, and that the Group's businesses will be suspended and a large amount of compensation for damages will be imposed.

For the purpose of avoiding the occurrence of these risks, the Group Companies are proactively acquiring intellectual property rights such as patents, trademarks, copyrights and domain names, and implementing countermeasures to avoid infringements of the intellectual property of third parties. However, if these risks become real in spite of these countermeasures, the business activities, financial performance and financial position of the Group Companies could be affected.

3) Risks Pertaining to Human Resources

The Group Companies require human resources with specialized skills and diversity relating to

individual service segments. As the Group Companies expand their activities and develop their business internationally, it is necessary to continue the global recruitment and training of personnel and realize diversity. Furthermore, in light of Japan's declining birthrate, aging population, and declining working population, the Group Companies recognize that they must continuously address issues such as recruitment activities responsive to changes in market needs, improvement of productivity, the retention of employed human resources, and the training of manager-class employees.

The Group Companies update and implement monthly personnel plans, diversify recruitment channels and increase the number of recruiters while closely watching changes in those plans, and conduct recruitment activities accordingly. The Group Companies employ human resources from overseas while paying attention to their responses to the trend of the COVID-19 pandemic following the government's guidance. In addition, the Group Companies are seeking to strengthen human resource training and engagement mainly by implementing education and training activities tailored to the job ranking of employed human resources. In the training of manager-class employees, the Group Companies create opportunities for the Group's manager-class employees to express their opinions with each other at leadership summits, etc. held within the Group, thereby reinforcing Group-wide cooperation and leadership. Notwithstanding these measures, however, if the Group Companies are unable to proceed with employment as planned due to escalating competition for human resources among competitors, and if work to train human resources and develop work environments that enable various kinds of human resources to play active roles does not proceed smoothly, and thus there is an exodus of existing staff, there are possible risks of labor shortages and decreased labor productivity. In such cases, the business activities, financial performance and financial position of the Group Companies could be seriously affected.

In addition, Hiroshi Mikitani, the Chairman, President and Representative Director of the Company, is the founder of the Group Companies, has taken part in the Group's management as the CEO since the Company's foundation, and thus plays an important role. Therefore, if he were to unexpectedly resign or become incapable of performing his duties, the Group Companies could be seriously affected. The Group Companies have set up an in-house company system, have assigned a company president for each company based on an authority table, adopt an Executive Officer System, and thereby appropriately transfer the authority of business execution. The Group Companies also train human resources who are capable of leading a wide range of the Group's business development globally, and reduce the risks that would arise in the event that Hiroshi Mikitani were to resign or become incapable of performing his duties. However, if he were to unexpectedly resign or suddenly become incapable of performing his duties, the business activities, the financial performance and financial position of the Group Companies could be seriously affected.

(5) Risks Pertaining to Market Risks

1) Risks Pertaining to Interest Rate Fluctuations and Fluctuations in the Prices of Securities, Money Trusts, etc.

The Company and its subsidiaries, namely Rakuten Card Co., Ltd., Rakuten Bank, Ltd. and Rakuten Securities, Inc., procure funds from banks, etc. necessary for the business activities, and the procurement of these funds for the business activities may be exposed to the effects of interest rate fluctuations.

In addition, the Group Companies hold substantial amounts of financial products, including securities and money trusts. These securities, etc. may be exposed to fluctuations in their prices mainly due to the trends of financial instrument markets. Although the Group Companies utilize

derivative transactions, etc. for some securities, etc. in order to reduce price fluctuation risks, there is no guarantee that the aforesaid risks will be reduced or completely avoided. For this reason, the business activities, financial performance and financial position of the Group Companies could be affected by price fluctuations in the financial instrument markets.

2) Risks Pertaining to Exchange Rate Fluctuations

In foreign currency-denominated investments and the transactions in foreign currencies executed by the Group Companies, it is our policy to avoid exchange rate risks as much as possible, while closely observing economic trends. However, it is difficult to completely eliminate the impact of foreign exchange as the Group Companies translate items denominated in local currencies into Japanese yen for the business performance, assets and liabilities pertaining to foreign operations when preparing its Consolidated Financial Statements. For this reason, the business activities, financial performance and financial position of the Group Companies could be affected by movements in foreign exchange rates.

(6) Risks Relating to Finance and Funds

1) Risks Relating to Financing

Loan contracts and commitment lines that the Group Companies have concluded with financial institutions, etc. are in some cases subject to covenants clauses, and any deterioration in the financial performance, financial position or credit rating of the Group Companies could result in demands from these financial institutions, etc. for full repayment of existing debt, increases in interest rates or commission rates, and the provision of collaterals under these clauses, etc. There is no guarantee that the Group Companies will be able to procure funds on favorable terms, and in a timely manner under certain circumstances, such as if the Group Companies' credit status deteriorates and the credit rating by credit rating agencies is lowered, or if fund procurement circumstances deteriorate at financial institutions, etc. mainly due to the impact of financial markets, thereby affecting the lending terms, bond issuance terms, etc. of the Group Companies. Such situations could have a limiting effect on the development of the Group Companies' services. The Group Companies seek to reduce these risks as much as possible mainly by means of maintaining favorable business relations with financial institutions, rating agencies, capital markets, etc., and diversifying funds sources and fund-raising methods. If, however, these risks become real, and if financial markets become unstable, the business activities, financial performance and financial position of the Group Companies could be affected.

2) Risks Relating to Deferred Tax Assets

The Company and some of its consolidated subsidiaries currently recognize future tax benefits as deferred tax assets, in accordance with International Financial Reporting Standards (IFRS). The Group Companies recognize recoverable deferred tax assets in consideration of future taxable income and exercisable tax planning. However, if the Company or its consolidated subsidiaries will be unable to recover part or all of their deferred tax assets based on downward revisions on estimates of future taxable income, or due to tax reform or changes in accounting standards, the financial position and financial performance of the Group Companies would be affected by the consequent reduction in the value of said deferred tax assets.

(7) Risks Pertaining to Natural Disasters and Pandemics

Natural disasters such as earthquakes, typhoons, and tsunamis, fires, power outages, and pandemics could have a significant impact on the business activities, financial performance and

financial position of the Group Companies. Therefore, the Group Companies recognize these natural disasters as serious risks.

In the event that such a disaster or a pandemic strikes, the economic activities of society as a whole may stagnate, and the need for services provided by the Group Companies may be reduced, or contrarily the need for such services may rapidly surge, depending on the behavior and nature of the disaster, etc. If the need exceeds the Group's operational handling capabilities, service operations could be delayed or temporarily suspended. In addition, if the Group's sales and distribution bases, data centers, and other major bases directly or indirectly incur damage caused by such disasters or pandemics, physical and personal damage, and impact will be caused, the telecommunication networks, information systems, etc. will not operate normally, and the Group's business activities themselves will be difficult to continue. As a result, the Group Companies could potentially be forced to suspend the provision of services due mainly to restrictions curbing the provision of services. In addition, for the purpose of ensuring the safety of officers and employees, the Group Companies could be compelled to change operating aspects, for example, by restricting or suspending their commutes according to the conditions prevailing. In such cases, operational productivity could be potentially reduced, and risks pertaining to information security and privacy protection could potentially increase to a certain extent.

The Group Companies have formulated emergency response measures in preparation of such disasters and pandemics, including the business continuity plans (BCP), and further improved these measures by securing the safety of their officers and employees mainly through training and assuming to set up back-up systems for their information systems, and as such, seek to minimize these risks. However, if the scale of a disaster or pandemic exceeds their assumptions, these risks may become real and business continuity itself may be difficult or jeopardized. In such cases, the business activities, financial performance and financial position of the Group Companies could be seriously affected.

(8) Risks Pertaining to Climate Change

The Group Companies recognize that climate change, including the repeated occurrence of extreme weather events and changes in climate patterns, has a significant impact on the global environment, humanity, and corporate activities, and that this is a critical risk that could have a significant impact on the business activities, financial performance, and financial position of the Group Companies. Climate change risks can be broadly classified into physical risks associated with climate change and transition risks such as the expansion of various regulations associated with the transition to a low-carbon society.

The Group Companies recognize the impact on their business of specific extraordinary disasters (designated as disasters of an extremely unusual or devastating nature) and other disasters that have occurred in Japan for three consecutive years as one of the physical risks. Specifically, the risk of delays in the dispatch and delivery of products purchased on Rakuten Ichiba and the risk of operational loss due to increases in the amount of insurance claims paid by Rakuten General Insurance Co., Ltd. have become real. At Rakuten Ichiba, a notice of delay in delivery arising from bad weather is announced to users on merchandise purchase screens, and the same announcement is posted from time to time on the website of Rakuten EXPRESS, our in-house delivery service. Through these efforts, the Group Companies are working to ensure, to the maximum extent possible, that users will not be hindered by delays in delivery. In addition, the Group Companies research flood risks at self-operating logistics bases mainly based on hazard maps, thoroughly publicize evacuation bases to be used at the time of disasters, and thereby seek

to reduce risks so that merchandise will not be damaged at logistics bases and dispatch and delivery will not be hindered. Furthermore, Rakuten General Insurance Co., Ltd. is utilizing reinsurance and holding a catastrophe reserve, etc. to prepare for the payment of large insurance claims that result from damages caused by large-scale typhoons and torrential rains. In this manner, each business is taking measures to mitigate physical risks.

Meanwhile, with the transition to a low-carbon society by reducing CO₂ emissions, there is a possibility that various laws and regulations such as carbon taxes will be imposed without prior notice by the governments of countries where the Group Companies operate, including Japan. One of the transition risks the Group Companies recognize is the possibility that the business activities, financial performance, and financial position of the Group Companies may be affected by temporary increases in costs to comply with such taxes and various laws and regulations. More than 90% of the CO₂ emitted by the Group Companies in the course of their business activities comes from electricity consumption. In order to reduce CO₂ emissions by the Company, it has joined the RE100 (Renewable Electricity 100%) international initiative and has committed to utilize 100% renewable energy for the electricity used in our offices, data centers, and distribution centers by 2025. In this way, we are promoting the transition to a low-carbon society and reducing transition risk.

Although the Group Companies are working to reduce the risk of climate change, if climate change risks that exceed expectations materialize, the business activities, financial performance and financial position of the Group Companies could be seriously affected.

(9) Administrative Operation Risk

1) Risks Pertaining to Financial Reporting

In an effort to prepare highly reliable financial statements, the Group Companies designed and are operating their internal controls systems in relation to financial reporting and conducted assessments in accordance with internal control reporting requirements under the Financial Instruments and Exchange Act. However, should material defects occur, such as when the internal controls of the Group Companies fail to function properly or internal fraud cannot be prevented, the Group's social credibility could be damaged, users and business partners could withdraw, and the business activities, financial performance and financial position of the Group Companies could be affected.

2) Risks Pertaining to Business Efficiency

The Group Companies implement numerous measures to increase the accuracy and efficiency of work operations. In particular, the Group Companies are working on improvement activities that engage the participation of all employees, utilizing various information systems in conducting their businesses, implementing double-checking systems that enforce redundant checks of operation details by employees other than those parties responsible for the operation, standardizing and documenting internal rules and administrative procedures, etc. However, there are certain operations for which specialized information systems have not been introduced and which are entrusted to manual handling, and defects in administrative procedure may occur due to misrecognition by company officers and employees, incorrectly performed operations and other factors. Furthermore, it is possible that as a result of an increase in administrative work and the expansion of new services in conjunction with the Group Companies' rapid expansion that sharing and transfer of required expertise for business execution would be inadequate. As a result, there may be increased defects in administrative procedures and lower productivity, which could hinder the stable provision of services and lead to economic losses and outflows of personal information,

etc., and the business activities, financial performance and financial position of the Group Companies could be affected.

(10) Risks Pertaining to Reputation

There are various kinds of publicity and information about the Group Companies' businesses and officers and employees that are spread through various forms of media, including SNS. Although such publicity and information may include those not based on correct information and others based on speculation, they could possibly affect the understanding and perception or actions of users of the Group Companies' services and their investors, regardless of accuracy of such publicity and information or involvement of the Group Companies.

In the event there arises indefinite information that could have a serious influence on the Company's stock price, the Company will immediately disclose its opinion about the indefinite information according to an alert issued by the Tokyo Stock Exchange, and disclose appropriate information to capital markets so that investors can evaluate the Group Companies' stock based on accurate information. At the same time, the Company is working towards appropriate information transmission through the Group Companies' corporate website. However, news reports and the dissemination of information could damage the Group Companies' social credibility as a result, and thereby incur the withdrawal of users and business partners. In such cases, the business activities, financial performance and financial position of the Group Companies could be adversely affected.

3. Management Analysis of Consolidated Business Results, Financial Position and Cash Flows

(1) Status of Business Results

Rakuten Group discloses consolidated business results in terms of both its internal measures, on which management relies when 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 nonrecurring items and other adjustments prescribed by Rakuten Group. Management believes that the disclosure of Non-GAAP financial measures facilitates comparison between Rakuten Group and peer companies in the same industry or comparison of its business results with those of prior fiscal years to the stakeholders and can provide useful information in understanding the underlying business results of Rakuten Group and its business forecast. Nonrecurring items refer to one-off items that Rakuten Group believes should be excluded, for the purpose of preparing a business forecast. Other adjustment items are those that tend to differ depending on the standards applied and are therefore less comparable between companies, such as share-based compensation expenses and amortization of acquisition-related intangible assets.

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

1) Business Results for the Fiscal Year Ended December 31, 2020 (Non-GAAP basis)

The world economy during the fiscal year ended December 31, 2020 remains severe due to the spread of COVID-19, but is beginning to recover. The Japanese economy is also expected to follow in the footsteps of the world economy, mainly due to the effects of various policy measures. On the other hand, trends such as effects of COVID-19 in Japan and elsewhere, along with financial market changes require us to remain vigilant. Against this backdrop, Japan’s Ministry of Health, Labour and Welfare is requesting that people practice a “New Lifestyle” to prevent the spread of COVID-19, including shopping online and utilizing electronic payments. IT companies provide the Internet services and online financial services that enable people to purchase products and enjoy services while reducing contact with others, and the social role expected of IT companies is further increasing.

Under such an environment, Rakuten Group continued 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 the Internet Services segment, transaction volumes showed major growth in domestic e-commerce services. For example, factors such as the success of unified measures for free shipping threshold on “Rakuten Ichiba”, the internet shopping mall, and the impact of stay-at-home consumption amid the COVID-19 pandemic, drove its annual gross merchandise sales to exceed ¥3 trillion for the first time. In the FinTech segment, transaction volume of credit card shopping with Rakuten Card exceeded ¥11 trillion for the fiscal year ended December 31, 2020, as the customer base for each service continues to grow. In the Mobile segment, the expansion of the areas covered under its own network lines, along with various marketing strategies proved successful, and the cumulative number of applications for subscription topped 2 million in December 2020.

As a result, Rakuten Group achieved a revenue of ¥1,455,538 million, up 15.2% year-on-year, but due to ongoing prior investments in the Mobile segment, such as the installment of its

own base stations, it recorded Non-GAAP operating loss was ¥102,667 million, compared to Non-GAAP operating income of ¥95,129 million in the previous fiscal year.

(Non-GAAP basis)

(Millions of Yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020	Amount Change YoY	% Change YoY
Revenue	1,263,932	1,455,538	191,606	15.2%
Non-GAAP operating income (loss)	95,129	(102,667)	(197,796)	—%

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

For the fiscal year ended December 31, 2020, amortization of intangible assets of ¥9,502 million and share based compensation expenses of ¥10,612 million were excluded from Non-GAAP operating income. One-off items listed for the fiscal year ended December 31, 2020 include a gain on sales of all shares in OverDrive Holdings, Inc. of ¥40,926 million, losses on investments in the filmmaking business of ¥3,277 million, and impairment of fixed assets due to the closure of certain U.S. based business. For the previous fiscal year, one-off items including an impairment loss on property, plant and equipment in the U.S. etc., of ¥3,483 million were recorded.

(Millions of Yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020	Amount Change YoY
Non-GAAP operating income (loss)	95,129	(102,667)	(197,796)
Amortization of intangible assets (PPA)	(8,764)	(9,502)	(738)
Share-based compensation expenses	(10,137)	(10,612)	(475)
One-off items (losses)	(3,483)	28,932	32,415
IFRS operating income (loss)	72,745	(93,849)	(166,594)

3) Business Results for the Fiscal Year Ended December 31, 2020 (IFRS basis)

Rakuten Group recorded revenue of ¥1,455,538 million, up 15.2% year-on-year, an IFRS operating loss of ¥93,849 million, compared with IFRS operating income of ¥72,745 million in the previous fiscal year, and net loss attributable to owners of the Company of ¥114,199 million, compared with net loss of ¥31,888 million in the previous fiscal year.

(IFRS basis)

(Millions of Yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020	Amount Change YoY	% Change YoY
Revenue	1,263,932	1,455,538	191,606	15.2%
IFRS operating income (loss)	72,745	(93,849)	(166,594)	—%
Net loss attributable to owners of the Company	(31,888)	(114,199)	(82,311)	—%

4) Segment Information

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

To enhance collaboration and synergy between digital content services and mobile services, some businesses and subsidiaries have been transferred to other segments from the fiscal year ended December 31, 2020. The main change was made to businesses that operate digital content sites, including Rakuten Kobo Inc. in the Internet Services segment, which were transferred to the Mobile segment. Segment information for the previous fiscal year has been restated accordingly.

(Internet Services)

In the Internet Services segment for the fiscal year ended December 31, 2020, in domestic e-commerce services, the mainstay of internet services, 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 expansion of the Rakuten Ecosystem. Rakuten Group worked to mitigate the medium- to long-term impact of volume limits and price hike of shipping costs charged from shipping companies and enhance the convenience of both customers and merchants who use Rakuten services by reinforcing its logistics network and introducing a unified free shipping threshold. These efforts include increasing the capacity of Rakuten Group's logistics facilities to accept products for stores on the Rakuten marketplace and expanding the last mile delivery area covered by 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 increased demand for online shopping following the growth in so-called "stay-at-home consumption" triggered by the voluntary restraints on outings intended to prevent the spread of COVID-19. The online travel booking service, Rakuten Travel, was affected by a slump in reservations and a series of cancellations due to factors including the voluntary restraint on outings and the declaration of a state of emergency. However, revenue improved particularly in the third quarter onward, benefiting mainly from the government's "Go To Travel" program launched in July 2020. Income improved as a result of measures including cost efficiency improvements. On the other hand, in December 2020, the government announced the suspension of the program to prevent the resurgence of COVID-19, which has since negatively impacted accommodation booking services in particular. In services for professional sporting events, revenue decreased as the number of visitors was restricted in professional baseball's regular-season games and soccer's league competitions, but income improved amid the gradual relaxation of restrictions.

As a result, revenue for the Internet Services segment rose to ¥820,115 million, a 10.3% year-on-year increase, while segment profit stood at ¥40,114 million, a 62.6% year-on-year decrease.

(Millions of Yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020	Amount Change YoY	% Change YoY
Segment Revenue	743,266	820,115	76,849	10.3%
Segment Profit	107,211	40,114	(67,097)	(62.6)%

(FinTech)

In credit card services, the membership base of “Rakuten Card” continued to expand after the number of its members topped 20 million in June 2020 and 21 million in November 2020, and while consumption remains constrained in lodging and dining services, the growth in transaction volume mainly in online shopping contributed to increases in revenue and profit, which leads transaction value of credit card shopping with Rakuten Card exceeded ¥11 trillion for the fiscal year ended December 31, 2020. In banking services as well, the number of newly acquired bank accounts rose steadily after the total number of accounts exceeded 9 million in June 2020, leading to increased income from service transactions, etc. and contributing to revenue growth. Similarly, in securities services as well, the number of newly opened accounts continued to rise significantly, with the total number of cash management accounts topping 5 million in December 2020, and at the same time, domestic and foreign shares trading commissions rose. The resulting increase in commission earnings mainly contributed to higher revenue and profit.

As a result, the FinTech segment recorded ¥576,195 million in revenue, a 18.5% year-on-year increase, while segment profit stood at ¥81,291 million, a 17.3% year-on-year increase.

(Millions of Yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020	Amount Change YoY	% Change YoY
Segment Revenue	486,372	576,195	89,823	18.5%
Segment Profit	69,306	81,291	11,985	17.3%

(Mobile)

In the Mobile segment for the fiscal year ended December 31, 2020, 5G service commenced in September following the launch of full-scale services in April 2020. After the cumulative number of applications for subscription topped 2 million in December 2020, the Rakuten Group made further progress in winning more customers both in and outside the Rakuten Ecosystem. It is accelerating the installment of base stations and expanding its service area with its own network lines while seeking to improve its network quality. The digital contents services, which includes e-book and video streaming services, continues to expand its customer base, fueled by expanding demand for online content services amid the COVID-19 crisis in particular.

As a result, revenue for the Mobile segment rose to ¥227,142 million, a 34.4% year-on-year increase, while segment loss stood at ¥226,976 million, compared to a loss of ¥76,524 million in the previous fiscal year as prior investments continued mainly for the installment of the Group's own base stations in the mobile business.

(Millions of Yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020	Amount Change YoY	% Change YoY
Segment Revenue	169,054	227,142	58,088	34.4%
Segment Loss	(76,524)	(226,976)	(150,452)	—%

5) Production, Order and Sales Status

(Production Results)

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

(Order Results)

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

(Sales Results)

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

Name of business segments	Revenue (Millions of Yen)	Year-on-year (%)
Internet Services	820,115	10.3
FinTech	576,195	18.5
Mobile	227,142	34.4
Intercompany transactions, etc.	(167,914)	—
Total	1,455,538	15.2

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

(2) Management Analyses and Details of Examination of Business Results, etc.

The content of Management Analyses and Details of Examination of Business Results, etc. is as follows All forward-looking statements herein are based on judgments by the Group Companies as of the December 31, 2020.

1) Analysis of Business Results

(Revenue)

The Group Companies, for the fiscal year ended December 31, 2020, achieved revenue of ¥1,455,538 million, an increase of ¥191,606 million (15.2%) from ¥1,263,932 million for the previous fiscal year. This increase in revenue was brought by steady growth in domestic existing businesses represented by Rakuten Ichiba in the Internet Services segment, increases of commission income and other income in the FinTech segment owing to expansion of the Rakuten Card membership base, increased income from service transactions, etc. due to the expansion of the customer base in banking services, and increased commission earnings from the growth of domestic shares and FX trading values in securities services.

(Operating expenses)

Operating expenses for the fiscal year ended December 31, 2020 amounted to ¥1,579,630 million, an increase of ¥312,728 million (24.7%) from ¥1,266,902 million for the previous fiscal year. This was due to an increase in expenses associated with sales activities to further increase revenue and expenses associated with logistics bases facilities and their reinforcement, as well as increases in expenses related to the construction of base stations in the Mobile segment.

(Other income)

Other income for the fiscal year ended December 31, 2020 amounted to ¥54,483 million, a decrease of ¥32,418 million (37.3%) from ¥86,901 million for the previous fiscal year. This was mainly due to a decrease in valuation gains on investment securities recorded in the previous fiscal year.

(Other expenses)

Other expenses for the fiscal year ended December 31, 2020 amounted to ¥24,240 million, an increase of ¥13,054 million (116.7%) from ¥11,186 million for the previous fiscal year. This was mainly due to the recording of losses on investments in the filmmaking business of ¥3,277 million.

(Operating income or loss)

Operating loss for the fiscal year ended December 31, 2020 amounted to ¥93,849 million, a decrease of ¥166,594 million from an operating income of ¥72,745 million for the previous fiscal year. This was mainly due to an increase in operating expenses, due to the recording of expenses associated with sales activities and expansion of logistics distribution facilities, as well as construction of base stations for the Mobile segment to achieve further business growth, despite business being strong and sales revenue increasing in the Internet Services and FinTech segments.

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

Share of losses of investments in associates and joint ventures for the fiscal year ended December 31, 2020 amounted to ¥37,710 million, compared to a share of losses of investments in associates and joint ventures of ¥111,918 million for the previous fiscal year. This was mainly due to the recording of a loss of ¥25,017 million in line with the change in accounting treatment of investment in Lyft, Inc.

(Loss before income tax)

Loss before income tax for the fiscal year ended December 31, 2020 amounted to ¥151,016 million, compared to a loss before income tax of ¥44,558 million for the previous fiscal year. This was due to a decrease in income as a result of factors explained in operating income or loss.

(Income tax benefit)

Income tax benefit for the fiscal year ended December 31, 2020 amounted to ¥35,178 million, compared to an income tax benefit of ¥11,490 million for the previous fiscal year. This was mainly due to the recording of a loss before income taxes for the current fiscal year.

(Net loss)

As a result of the above, net loss for the fiscal year ended December 31, 2020 amounted to ¥115,838 million, compared to a net loss of ¥33,068 million for the previous fiscal year.

(Net loss attributable to owners of the Company)

As a result of the above, net loss attributable to owners of the Company for the fiscal year ended December 31, 2020 amounted to ¥114,199 million, compared to a net loss attributable to owners of the Company of ¥31,888 million for the previous fiscal year.

2) Analysis of Financial Position

(Assets)

Total assets as of December 31, 2020 amounted to ¥12,524,438 million, an increase of ¥3,358,741 million from ¥9,165,697 million at the end of the previous fiscal year. The primary factors were an increase of ¥1,542,749 million in cash and cash equivalents, an increase of ¥697,220 million in financial assets for securities business, and an increase of ¥386,520 million in loans for banking business.

(Liabilities)

Total liabilities as of December 31, 2020 amounted to ¥11,895,424 million, an increase of ¥3,466,927 million from ¥8,428,497 million at the end of the previous fiscal year. The primary factors were an increase of ¥1,555,414 million in deposits for banking business, an increase of

¥760,361 million in bonds and borrowings, and an increase of ¥726,582 million in financial liabilities of securities business.

(Equity)

Equity as of December 31, 2020 was ¥629,014 million, a decrease of ¥108,186 million from ¥737,200 million at the end of the previous fiscal year. The primary factors were a decrease of ¥123,154 million in retained earnings resulting from the recognition of ¥114,199 million of net loss attributable to owners of the Company for the fiscal year ended December 31, 2020.

3) Cash Flows

Cash and cash equivalents as of December 31, 2020 was ¥3,021,306 million, an increase of ¥1,542,749 million from the end of the previous fiscal year. Cash flow conditions and their major factors for the fiscal year ended December 31, 2020 are as follows.

(Net cash flows from operating activities)

Net cash flows from operating activities for the fiscal year ended December 31, 2020 resulted in a cash inflow of ¥1,041,391 million (compared with a cash inflow of ¥318,320 million for the previous fiscal year). Primary factors included a cash outflow of ¥697,382 million due to an increase in financial assets for securities business and a cash outflow of ¥386,520 million due to an increase in loans of banking business, offset by a cash inflow of ¥1,555,229 million due to an increase in deposits of banking business and a cash inflow of ¥726,799 million due to an increase in financial liabilities for securities business.

(Net cash flows from investing activities)

Net cash flows from investing activities for the fiscal year ended December 31, 2020 resulted in a cash outflow of ¥303,347 million (compared with a cash outflow of ¥286,290 million for the previous fiscal year). Primary factors included a cash inflow of ¥6,039 million due to purchase and sales, etc. of investment securities in the banking business (a cash outflow of ¥467,460 million due to purchase of investment securities and a cash inflow of ¥473,499 million due to sales and redemption of investment securities), offset by a cash outflow of ¥279,278 million due to purchase of property, plant and equipment, and a cash outflow of ¥105,796 million due to acquisition of intangible assets.

(Net cash flows from financing activities)

Net cash flows from financing activities for the fiscal year ended December 31, 2020 resulted in a cash inflow of ¥808,108 million (compared with a cash inflow of ¥458,340 million for the previous fiscal year). Primary factors included a cash outflow of ¥324,141 million due to repayment of long-term debts, offset by a cash inflow of ¥424,590 million due to proceeds from long-term debts, a cash inflow of ¥411,279 million due to an increase in short-term debts, and a cash inflow of ¥148,900 million due to proceeds from issuance of bonds.

4) Recognition and Presentation of Revenues

Recognition and presentation of revenues are described in “V. Financial Information, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements, Notes to the Consolidated Financial Statements, 28. Revenue, (1) The Breakdown of Revenue.”

5) Recoverability of Deferred Tax Assets

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

6) Financial Assets Measured at Fair Value

The financial assets measured at fair value are described in "V. Financial Information, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements, Notes to the Consolidated Financial Statements, 40. Fair Value of Financial Instruments."

(3) Asset Sources and Liquidity of Funds

1) Basic Policy on Financial Management

The Company's basic policy on financial management is to ensure stable and diverse means of procuring funds to meet funding needs in order to enable the realization of sustainable growth for the Group Companies, and to ensure sufficient liquidity in order to maintain the financial soundness of subsidiaries engaged in the finance business.

In principle, subsidiaries belonging to the FinTech segment, which requires management independence, and subsidiaries excluding Rakuten Mobile, Inc. that procure leases from external financial institutions, do not procure funds from banks or other external financial institutions. Instead, the Company raises funds, improves the efficiency of the Group Companies' funds, and ensures liquidity through the use of cash management services within the Group Companies.

In addition, the Company's basic policy is to use funds obtained from cash flows from operating activities and short-term borrowings including commercial papers to procure increased operating funds, etc., in the continuously growing Internet Services segment. As for the appropriation of funds for capital expenditures in the Mobile segment, which is in the investment phase, please see "3) Future Funding Procurement Needs and Funding Procurement Forecast" below.

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. In addition, cases exceeding a certain amount are required to be approved by the Board of Directors. Furthermore, post-investment monitoring is conducted on an ongoing basis, and the portfolio is flexibly reviewed, as necessary. Through these efforts, the Company aims to achieve Group-wide risk management and optimal allocation of management resources.

Based on the above, specific funding procurement methods and the timing of funding procurement are determined in light of factors including cash flows and liquidity on hand, based on the business plan for the Group Companies as a whole

For risks related to funding procurement, please see "II. Business Overview, 2. Business Risks."

2) Current Status

The Company has a total of ¥2,487,457 million in bonds and borrowings, an increase of ¥760,361 million from the previous fiscal year. Of these, short-term bonds and borrowings increased ¥547,007 million year on year, to become ¥950,262 million, comprising short-term borrowings (mainly borrowings from banks) of ¥630,262 million and commercial papers of ¥320,000 million.

In response to the COVID-19 pandemic, the Company increased the limit on the issuance of commercial papers from ¥100,000 million to ¥150,000 million in April 2020, and increased the total amount of commitment line borrowing contracts with several financial institutions from ¥80,000 million to ¥120,000 million in June 2020, in order to ensure adequate cash flows.

The Company's long- and short-term credit ratings as of December 31, 2020 were A/J-1, from the Japan Credit Rating Agency (JCR), A-/a-1 from Rating and Investment Information (R&I), and BBB- (long-term) from S&P Global Ratings.

3) Future Funding Procurement Needs and Funding Procurement Forecast

The Company's consolidated subsidiary Rakuten Mobile, Inc. received approval from the Minister for Internal Affairs and Communications for a plan to set up specified base stations to promote the spread of the fourth-generation mobile communication system in April 2018, and for a plan to set up specified base stations for the introduction of a fifth-generation mobile communication system in April 2019. In accordance with these plans, Rakuten Group has fully launched 4G services in April 2020, and 5G services in September 2020. Capital investment in the approved plans was expected to amount to a maximum of approximately ¥800,000 million by 2026. However, of this amount, the maximum capital investment of approximately ¥600,000 million for 4G is expected to increase to a maximum of approximately ¥840,000 million, in order to improve communication quality by increasing the density of specified base stations and to accommodate the expected increase in the number of users, going forward. Capital investment for fiscal 2021 is planned to be approximately ¥350,000 million. Plans for procurement of these necessary funds include investment from the Company to Rakuten Mobile, Inc., and leasing and fluidized finance in Rakuten Mobile, Inc. The investment was mainly funded by ¥182,000 million procured through unsecured subordinated bonds with deferred interest clause and early redemption clause (with subordination agreement) issued in December 2018, and ¥120,000 million procured through unsecured subordinated bonds with deferred interest clause and early redemption clause (with subordination agreement) issued in November 2020. In addition, all proceeds of ¥242,347 million to be raised from the issue of new shares and dispose of treasury stock through the third-party allotment, which was resolved in the Meeting of the Board of Directors held in March 2021, are planned to be used for the aforementioned investment by the end of December 2021. However, going forward, there is a possibility that the Company may be required to make further investments in Rakuten Mobile, Inc., due to accelerated capital investments in 4G services, etc. In such cases, the Company will consider the most appropriate means of fund procurement, taking into account the "1) Basic Policy on Financial Management" above.

(4) Factors Having a Serious Impact on Business Results

Factors that have a serious impact on business results are as stated in "II. Business Overview, 2. Business Risks."

(5) Significant Accounting Estimates and the Assumptions Used in Such Estimates

The Group Companies' Consolidated Financial Statements are prepared in accordance with IFRS.

The significant accounting estimates and the assumptions used in such estimates applied for the preparation of the Consolidated Financial Statements are described in “V. Financial Information, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements, Notes to the Consolidated Financial Statements.”

4. Material Business Agreements, etc.

There were no material business agreements, etc., agreed or concluded by the Company during the current fiscal year.

5. Research and Development Activities

Our research and development activities are carried out independently within each of the business segments with the purpose of contributing to the development operations of the Company and the Group Companies. In February 2014, a research base was established in Paris, France, in July 2015 in Singapore and Boston, the United States, in April 2018 in San Mateo, the United States, and in December 2018 in Bengaluru, India adding to our facilities in Japan, to expand our research system. We explore research themes focused on three areas, namely AI and Deep learning, user interaction and AR/VR, and mobile communication system-related technologies, IoT, robotics and drone technologies, based on our corporate vision on the future direction of Internet development, with the details given below. Since the Group Companies' research and development activities mainly cover Internet-related basic technologies and mobile communication system-related technologies, which cannot be classified into specific segments, the activities are not listed by segment. The total expense of research and development in the current fiscal year was ¥10,488 million.

1) AI and Deep Learning

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

2) User Interaction and AR/VR

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

3) Mobile Communication System-related Technologies, IoT, Robotics and Drone Technologies

We are engaged in the research and development of 5G related technologies, technologies related to the advancement of next-generation virtualized wireless access networks and automation of network operations, an IoT technology platform, and robotics and drone technologies.

III. Equipment and Facilities

1. Status of Capital Expenditures, etc.

Capital expenditure in the fiscal year ended December 31, 2020 was ¥506,317 million. This was mainly due to an increase in capital investment at Rakuten Mobile, Inc. and an increase in right-of-use assets as a result of new lease agreements.

2. Situation of Major Equipment

(1) Company filing Financial Reports

As of December 31, 2020								
Business Place (Location)	Name of segments	Details of major facilities	Book value (Millions of Yen)					Number of employees (Persons)
			Buildings and accompanying facilities	Furniture, fixtures and equipment	Right-of-use assets	Software	Total	
Head Office (Setagaya-ku, Tokyo)	—	Facilities involved with all operations	4,558	1,551	20,044	36,524	62,677	6,303
RFC Ichikawa I, II, III, IV (Ichikawa-shi, Chiba) and 7 other location	Internet Services	Warehouse facilities	4,253	78	80,498	20	84,849	107

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

2 Number of employees represents the number of persons engaged.

(2) Domestic Subsidiaries

As of December 31, 2020										
Name of companies	Location	Name of segments	Details of major facilities	Book value (Millions of Yen)						Number of employees (Persons)
				Buildings and accompa- nying facilities	Furniture, fixtures and equipment	Machinery facilities	Right-of- use assets	Software	Total	
Rakuten Mobile, Inc.	(Setagaya- ku, Tokyo)	Mobile	Facilities involved with all operations	—	339	777	—	45,276	46,392	2,357
Rakuten Mobile, Inc.	Base station network center in Japan	Mobile	Base stations, network equipment, etc.	2,575	15,188	149,922	111,531	2,185	281,401	1,462

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

2 Number of employees represents the number of persons engaged.

(3) Overseas Subsidiaries

As of December 31, 2020

Name of companies	Location	Name of segments	Details of major facilities	Book value (Millions of Yen)				Total	Number of employees (Persons)
				Buildings and accompanying facilities	Furniture, fixtures and equipment	Right-of-use assets	Land (m ²)		
Rakuten USA, Inc.	(U.S.)	—	Facilities involved with all operations	15,802	362	223	3,705 (19,287)	20,092	492

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

2 Number of employees represents the number of persons engaged.

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

(1) Introduction, etc. of Major Facilities

As of December 31, 2020

As of December 31, 2020								
Name of companies	Location	Name of segments	Details of major facilities	Expected investment amount		Method of procuring funds	Start date	Expected Completion date
				Total amount				
Rakuten Mobile, Inc.	(Setagaya-ku, Tokyo)	Mobile	Base stations, network equipment, etc. regarding “4G” and “5G”	Approximately billion yen	350.0	Private fund, loans, issuance of bonds, issuance of new shares, etc.	January 2021	December 2021

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

(2) Major Facility Disposal, etc.

Not applicable.

IV. Information on the Company Submitting Financial Reports

1. Information on the Company's Shares

(1) Total Number of Shares, etc.

1) Total Number of Shares

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

2) Total Number of Shares Issued

Class	As of the end of the current fiscal year (shares) (December 31, 2020)	As of the submission date (shares) (March 30, 2021)	Stock exchange on which the Company is listed	Description
Common stock	1,434,573,900	1,574,999,500	Tokyo Stock Exchange (First Section)	One unit of stock constitutes 100 common stocks.
Total	1,434,573,900	1,574,999,500	—	—

(Note) 1 Number of shares issued as of the submission date of this Annual Securities Report does not include the number of shares issued between March 1, 2021 and such submission date.

2 Number of shares issued as of the submission date increased by 139,737,600 due to the issuance of new shares through third-party allotment for which payment has been made on March 29, 2021.

(2) Status of the Share Options

1) Share Option Plans

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

1) Resolution at 15th General Shareholders' Meeting (March 29, 2012)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 29, 2012 (April 20, 2012)
Classification and number of persons received (persons)	Directors and employees of the Company's subsidiaries and affiliates 15
Number of Share Options (share options) *	1,566 [1,566] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 156,600 [156,600] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option (Note 2)
Exercise period of Share Options*	A. From April 20, 2014 to April 20, 2022 B. From April 20, 2015 to April 20, 2022 C. From April 20, 2016 to April 20, 2022
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥889 Amount to be included in capital: ¥445 B. Issue price: ¥886 Amount to be included in capital: ¥443 C. Issue price: ¥883 Amount to be included in capital: ¥442 (Note 4)
Conditions for exercise of Share Options*	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)

* Abovementioned items are based on Information as of the end of the current fiscal year (December 31, 2020). For the items that changed between the end of the current fiscal year and the end of the month prior to the date of submission (February 28, 2021), information as of the end of the month prior to the date of submission are stated within square brackets. Other items have not changed since the end of the current fiscal year.

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

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

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

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

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

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

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

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

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

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

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

3 Conditions for exercise of Share Options

1) Those who received the allotment of issue of Share Options Displayed in the Exercise period of Share Options may exercise all or a part of the share options, in accordance with the Exercise period of Share Options in the above. Details of A through C described in exercise period are as follows:

- A. One third of the allotted Share Options.
- B. and C. Same as the above.

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

In addition, allotted Share Options which are not then exercisable shall not be exercised thereafter: (a) in cases where those who received the allotment of the issue of Share Options retire or leave the Company of their own accord; those who received the allotment of the issue of Share Options are dismissed or displaced by Kobo Inc. due to reasons imputable to them under the governing law for its incorporation; or delegation or employment relationship between those who received the allotment of the issue of

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

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

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

- 7) Restriction on acquisition of Share Options by transfer
Acquisition of Share Options by transfer will be subject to the approval of the Board of Directors of the Restructured Company (or by the majority decision of Directors if such company is not a company with a Board of Directors).
 - 8) Reasons and conditions for the acquisition of Share Options
To be determined in accordance with 5 above.
- 8 Rules pertaining to fractions of less than one share arising from the exercise of Share Options
Fractions of less than one share in the number of shares to be delivered to holders of Share Options who exercised Share Options shall be discarded.

2), 3) Resolution at 15th General Shareholders' Meeting (March 29, 2012)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 29, 2012 (June 21, 2012)	March 29, 2012 (July 21, 2012)
Classification and number of persons received (persons)	Employees of the Company 2,529	Directors, Audit & Supervisory Board Members and employees of the Company's subsidiaries and affiliates 714
Number of Share Options (share options) *	1,551 [1,533] (Note 1)	423 [416] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 155,100 [153,300] (Note 1)	Common stock 42,300 [41,600] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option (Note 2)	¥1 per share option (Note 2)
Exercise period of Share Options*	From March 30, 2016 to March 28, 2022	From March 30, 2016 to March 28, 2022
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	Issue price: ¥815 Amount to be included in capital: ¥408 (Note 4)	Issue price: ¥770 Amount to be included in capital: ¥385 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)

(Notes) 1, 2, 4-8 Same as Notes of 1, 2, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Conditions for exercise of Share Options

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

4), 5) Resolution at 15th General Shareholders' Meeting (March 29, 2012)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 29, 2012 (August 3, 2012)	March 29, 2012 (January 26, 2013)
Classification and number of persons received (persons)	Employees of the Company's subsidiaries and affiliates 4	Employees of the Company, Directors, Audit & Supervisory Board Members and employees of the Company's subsidiaries and affiliates 4,632
Number of Share Options (share options) *	1 [1] (Note 1)	6,179 [6,091] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 100 [100] (Note 1)	Common stock 617,900 [609,100] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option (Note 2)	¥1 per share option (Note 2)
Exercise period of Share Options*	From March 30, 2016 to March 28, 2022	From March 30, 2016 to March 28, 2022
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	Issue price: ¥770 Amount to be included in capital: ¥385 (Note 4)	Issue price: ¥835 Amount to be included in capital: ¥418 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)

(Notes) 1, 2, 4-8 Same as Notes of 1, 2, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Note 3 of the Share Options of 2) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

6) Resolution at 15th General Shareholders' Meeting (March 29, 2012)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 29, 2012 (February 20, 2013)
Classification and number of persons received (persons)	Directors, Audit & Supervisory Board Members and employees of the Company, Directors and employees of the Company's subsidiaries and affiliates 71
Number of Share Options (share options) *	1,458 [1,458] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 145,800 [145,800] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option (Note 2)
Exercise period of Share Options*	From March 30, 2016 to March 28, 2022
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	Issue price: ¥792 Amount to be included in capital: ¥396 (Note 4)
Conditions for exercise of Share Options*	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)

(Notes) 1, 2, 4-8 Same as Notes of 1, 2, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Note 3 of the Share Options of 2) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

7), 8) Resolution at 16th General Shareholders' Meeting (March 28, 2013)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 28, 2013 (June 20, 2013)	March 28, 2013 (November 21, 2013)
Classification and number of persons received (persons)	Employees of the Company, Directors, Audit & Supervisory Board Members and employees of the Company's subsidiaries and affiliates 4,645	Employees of the Company's subsidiaries and affiliates 1
Number of Share Options (share options) *	5,735 [5,684] (Note 1)	120 [120] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 573,500 [568,400] (Note 1)	Common stock 12,000 [12,000] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	From March 29, 2017 to March 27, 2023	From March 29, 2017 to March 27, 2023
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	Issue price: ¥1,187 Amount to be included in capital: ¥594 (Note 4)	Issue price: ¥1,575 Amount to be included in capital: ¥788 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)

(Notes) 1, 4-8 Same as Notes of 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Note 3 of the Share Options of 2) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

9), 10) Resolution at 16th General Shareholders' Meeting (March 28, 2013)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 28, 2013 (January 25, 2014)	March 28, 2013 (February 20, 2014)
Classification and number of persons received (persons)	Employees of the Company, Directors, Audit & Supervisory Board Members and employees of the Company's subsidiaries and affiliates 4,837	Directors, Audit & Supervisory Board Members and employees of the Company 74
Number of Share Options (share options) *	3,808 [3,775] (Note 1)	1,459 [1,459] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 380,800 [377,500] (Note 1)	Common stock 145,900 [145,900] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	From March 29, 2017 to March 27, 2023	From March 29, 2017 to March 27, 2023
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	Issue price: ¥1,675 Amount to be included in capital: ¥838 (Note 4)	Issue price: ¥1,450 Amount to be included in capital: ¥725 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)

(Notes) 1, 4-8 Same as Notes of 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Note 3 of the Share Options of 2) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

11) Resolution at 16th General Shareholders' Meeting (March 28, 2013)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 28, 2013 (March 19, 2014)
Classification and number of persons received (persons)	Directors and employees of the Company's subsidiaries and affiliates 70
Number of Share Options (share options) *	1,602 [1,602] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 160,200 [160,200] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option
Exercise period of Share Options*	From March 29, 2017 to March 27, 2023
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	Issue price: ¥1,307 Amount to be included in capital: ¥654 (Note 4)
Conditions for exercise of Share Options*	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)

(Notes) 1, 4-8 Same as Notes of 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Note 3 of the Share Options of 2) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

12), 13) Resolution at 17th General Shareholders' Meeting (March 28, 2014)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 28, 2014 (April 19, 2014)	March 28, 2014 (June 19, 2014)
Classification and number of persons received (persons)	Directors and employees of the Company's subsidiaries and affiliates 112	Employees of the Company, Directors, Audit & Supervisory Board Members and employees of the Company's subsidiaries and affiliates 5,176
Number of Share Options (share options) *	1,700 [1,700] (Note 1)	5,446 [5,390] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 170,000 [170,000] (Note 1)	Common stock 544,600 [539,000] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	From March 29, 2018 to March 27, 2024	From March 29, 2018 to March 27, 2024
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	Issue price: ¥1,336 Amount to be included in capital: ¥668 (Note 4)	Issue price: ¥1,331 Amount to be included in capital: ¥666 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)

(Notes) 1, 4-8 Same as Notes of 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Conditions for exercise of Share Options

- 1) Those who received the allotment of the issue of Share Options shall remain Directors, Executive Officers, Audit & Supervisory Board Members or employees of the Company, or its subsidiaries or affiliates at the time of exercising such rights, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
- 2) Share Options shall not be inherited, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
- 3) Share Options shall not be offered for pledge or disposed of in any other way.
- 4) The Holders of Share Options have duties to pay all taxes (including but not limited to income tax, social security contributions, pensions, and employment insurance premium) specified by laws and regulations in relation to Share options and shares. In the case where the Company and its subsidiaries and affiliates is obliged to levy income tax, etc., the relevant company obliged to levy income tax, etc. shall be able to levy tax from such Holders of Share Options by the methods listed below.
 - i) Receipt by Cash
 - ii) Appropriation of shares owned by the Holders of Share Options
 - iii) Deduction from salaries, bonuses, etc. of the Holders of Share Options
 - iv) Other methods specified by the Company

14), 15) Resolution at 17th General Shareholders' Meeting (March 28, 2014)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 28, 2014 (August 21, 2014)	March 28, 2014 (September 18, 2014)
Classification and number of persons received (persons)	Employees of the Company's subsidiaries and affiliates 106	Directors and employees of the Company's subsidiaries and affiliates 11
Number of Share Options (share options) *	1,808 [1,808] (Note 1)	89 [89] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 180,800 [180,800] (Note 1)	Common stock 8,900 [8,900] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	From March 29, 2018 to March 27, 2024	From March 29, 2018 to March 27, 2024
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	Issue price: ¥1,320 Amount to be included in capital: ¥660 (Note 4)	Issue price: ¥1,201 Amount to be included in capital: ¥601 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)

(Notes) 1, 4-8 Same as Notes of 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Notes 3 of the Share Options of 12), 13) Resolution at 17th General Shareholders' Meeting held on March 28, 2014.

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

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 28, 2014 (October 21, 2014)	March 28, 2014 (January 24, 2015)
Classification and number of persons received (persons)	Directors and employees of the Company's subsidiaries and affiliates 60	Employees of the Company, Directors, Audit & Supervisory Board Members and employees of the Company's subsidiaries and affiliates 5,224
Number of Share Options (share options) *	5,601 [5,575] (Note 1)	4,487 [4,426] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 560,100 [557,500] (Note 1)	Common stock 448,700 [442,600] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	From March 29, 2018 to March 27, 2024	From March 29, 2018 to March 27, 2024
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	Issue price: ¥1,230 Amount to be included in capital: ¥615 (Note 4)	Issue price: ¥1,629 Amount to be included in capital: ¥815 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)

(Notes) 1, 4-8 Same as Notes of 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Notes 3 of the Share Options of 12), 13) Resolution at 17th General Shareholders' Meeting held on March 28, 2014.

18) Resolution at 17th General Shareholders' Meeting (March 28, 2014)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 28, 2014 (February 20, 2015)
Classification and number of persons received (persons)	Directors, Audit & Supervisory Board Members and employees of the Company, Directors and employees of the Company's subsidiaries and affiliates 72
Number of Share Options (share options) *	3,643 [3,643] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 364,300 [364,300] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option
Exercise period of Share Options*	From March 29, 2018 to March 27, 2024
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	Issue price: ¥1,980 Amount to be included in capital: ¥990 (Note 4)
Conditions for exercise of Share Options*	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)

(Notes) 1, 4-8 Same as Notes of 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Notes 3 of the Share Options of 12), 13) Resolution at 17th General Shareholders' Meeting held on March 28, 2014.

19), 20) Resolution at 18th General Shareholders' Meeting (March 27, 2015)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 27, 2015 (May 21, 2015)	March 27, 2015 (June 24, 2015)
Classification and number of persons received (persons)	Directors and employees of the Company's subsidiaries and affiliates 7	Directors and employees of the Company's subsidiaries and affiliates 17
Number of Share Options (share options) *	65 [65] (Note 1)	645 [645] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 6,500 [6,500] (Note 1)	Common stock 64,500 [64,500] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From June 1, 2016 to June 1, 2025 B. From June 1, 2017 to June 1, 2025 C. From June 1, 2018 to June 1, 2025 D. From June 1, 2019 to June 1, 2025	A. From July 1, 2016 to July 1, 2025 B. From July 1, 2017 to July 1, 2025 C. From July 1, 2018 to July 1, 2025 D. From July 1, 2019 to July 1, 2025
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥2,055 Amount to be included in capital: ¥1,028 B. Issue price: ¥2,051 Amount to be included in capital: ¥1,026 C. Issue price: ¥2,046 Amount to be included in capital: ¥1,023 D. Issue price: ¥2,042 Amount to be included in capital: ¥1,021 (Note 4)	A. Issue price: ¥2,026 Amount to be included in capital: ¥1,013 B. Issue price: ¥2,022 Amount to be included in capital: ¥1,011 C. Issue price: ¥2,017 Amount to be included in capital: ¥1,009 D. Issue price: ¥2,013 Amount to be included in capital: ¥1,007 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)

(Notes) 1, 4-8 Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Conditions for exercise of Share Options

- 1) Those who received the allotment of the issue of Share Options shall remain Directors, Executive Officers, Audit & Supervisory Board Members or employees of the Company, or its subsidiaries or affiliates at the time of exercising such rights, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
- 2) Share Options shall not be inherited, provided however that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances.
- 3) Share Options shall not be offered for pledge or disposed of in any other way.
- 4) Those who received the allotment of issue of Share Options Displayed in the Exercise period of Share Options may exercise all or a part of the share options. Details of A through D described in exercise period are as follows:

- A. 15% of the allotted Share Options.
 - B. 20% of the allotted Share Options.
 - C. 30% of the allotted Share Options.
 - D. 35% of the allotted Share Options.
- 5) The Holders of Share Options have duties to pay all taxes (including but not limited to income tax, social security contributions, pensions, and employment insurance premium) specified by laws and regulations in relation to share options and shares. In the case where the Company and its subsidiaries and affiliates is obliged to levy income tax, etc., the relevant company obliged to levy income tax, etc. will be able to levy tax from Holders of Share Options by the methods listed below.
- i) Receipt by cash
 - ii) Appropriation of shares owned by the Holders of Share Options
 - iii) Deduction from salaries, bonuses, etc. of the Holders of Share Options
 - iv) Other methods specified by the Company

21), 22) Resolution at 18th General Shareholders' Meeting (March 27, 2015)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 27, 2015 (July 18, 2015)	March 27, 2015 (July 18, 2015)
Classification and number of persons received (persons)	Employees of the Company, Directors and employees of the Company's subsidiaries and affiliates 6,003	Audit & Supervisory Board Members of the Company's subsidiaries and affiliates 2
Number of Share Options (share options) *	8,926 [8,836] (Note 1)	1 [1] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 892,600 [883,600] (Note 1)	Common stock 100 [100] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From August 1, 2016 to August 1, 2025 B. From August 1, 2017 to August 1, 2025 C. From August 1, 2018 to August 1, 2025 D. From August 1, 2019 to August 1, 2025	From March 28, 2019 to March 26, 2025
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥1,991 Amount to be included in capital: ¥996 B. Issue price: ¥1,986 Amount to be included in capital: ¥993 C. Issue price: ¥1,982 Amount to be included in capital: ¥991 D. Issue price: ¥1,978 Amount to be included in capital: ¥989 (Note 4)	Issue price: ¥1,979 Amount to be included in capital: ¥990 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 9)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)

(Notes) 1, 4-8 Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Notes 3 of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.

9 Same as Notes 3 of the Share Options of 12), 13) Resolution at 17th General Shareholders' Meeting held on March 28, 2014.

23), 24) Resolution at 18th General Shareholders' Meeting (March 27, 2015)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 27, 2015 (August 20, 2015)	March 27, 2015 (October 17, 2015)
Classification and number of persons received (persons)	Employees of the Company's subsidiaries and affiliates 2	Directors and employees of the Company's subsidiaries and affiliates 384
Number of Share Options (share options) *	665 [665] (Note 1)	4,172 [4,056] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 66,500 [66,500] (Note 1)	Common stock 417,200 [405,600] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From October 1, 2016 to October 1, 2025 B. From October 1, 2017 to October 1, 2025 C. From October 1, 2018 to October 1, 2025 D. From October 1, 2019 to October 1, 2025	A. From November 1, 2016 to October 31, 2025 B. From November 1, 2017 to October 31, 2025 C. From November 1, 2018 to October 31, 2025 D. From November 1, 2019 to October 31, 2025
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥1,553 Amount to be included in capital: ¥777 B. Issue price: ¥1,549 Amount to be included in capital: ¥775 C. Issue price: ¥1,545 Amount to be included in capital: ¥773 D. Issue price: ¥1,540 Amount to be included in capital: ¥770 (Note 4)	A. Issue price: ¥1,683 Amount to be included in capital: ¥842 B. Issue price: ¥1,678 Amount to be included in capital: ¥839 C. Issue price: ¥1,674 Amount to be included in capital: ¥837 D. Issue price: ¥1,670 Amount to be included in capital: ¥835 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)

(Notes) 1, 4-8 Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Notes 3 of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.

25), 26) Resolution at 18th General Shareholders' Meeting (March 27, 2015)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 27, 2015 (January 23, 2016)	March 27, 2015 (January 23, 2016)
Classification and number of persons received (persons)	Employees of the Company, Directors and employees of the Company's subsidiaries and affiliates 6,827	Audit & Supervisory Board Members of the Company's subsidiaries and affiliates 3
Number of Share Options (share options) *	12,249 [12,035] (Note 1)	9 [9] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 1,224,900 [1,203,500] (Note 1)	Common stock 900 [900] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From February 1, 2017 to January 30, 2026 B. From February 1, 2018 to January 30, 2026 C. From February 1, 2019 to January 30, 2026 D. From February 1, 2020 to January 30, 2026	From March 28, 2019 to March 26, 2025
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥1,290 Amount to be included in capital: ¥645 B. Issue price: ¥1,286 Amount to be included in capital: ¥643 C. Issue price: ¥1,282 Amount to be included in capital: ¥641 D. Issue price: ¥1,277 Amount to be included in capital: ¥639 (Note 4)	Issue price: ¥1,281 Amount to be included in capital: ¥641 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 9)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)

(Notes) 1, 4-8 Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Notes 3 of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.

9 Same as Notes 3 of the Share Options of 12), 13) Resolution at 17th General Shareholders' Meeting held on March 28, 2014.

27), 28) Resolution at 18th General Shareholders' Meeting (March 27, 2015)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 27, 2015 (February 18, 2016)	March 27, 2015 (February 18, 2016)
Classification and number of persons received (persons)	Directors and employees of the Company, employees of the Company's subsidiaries and affiliates 108	Outside Directors and Audit & Supervisory Board Members of the Company 8
Number of Share Options (share options) *	3,965 [3,965] (Note 1)	45 [45] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 396,500 [396,500] (Note 1)	Common stock 4,500 [4,500] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From March 1, 2017 to February 27, 2026 B. From March 1, 2018 to February 27, 2026 C. From March 1, 2019 to February 27, 2026 D. From March 1, 2020 to February 27, 2026	From March 28, 2019 to March 26, 2025
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥1,069 Amount to be included in capital: ¥535 B. Issue price: ¥1,065 Amount to be included in capital: ¥533 C. Issue price: ¥1,060 Amount to be included in capital: ¥530 D. Issue price: ¥1,056 Amount to be included in capital: ¥528 (Note 4)	Issue price: ¥1,060 Amount to be included in capital: ¥530 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 9)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)

(Notes) 1, 4-8 Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Notes 3 of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.

9 Same as Notes 3 of the Share Options of 12), 13) Resolution at 17th General Shareholders' Meeting held on March 28, 2014.

29), 30) Resolution at 19th General Shareholders' Meeting (March 30, 2016)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 30, 2016 (April 28, 2016)	March 30, 2016 (July 22, 2016)
Classification and number of persons received (persons)	Directors and employees of the Company's subsidiaries and affiliates 272	Directors and employees of the Company and Directors and employees of the Company's subsidiaries and affiliates 6,973
Number of Share Options (share options) *	4,186 [4,186] (Note 1)	16,402 [15,980] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 418,600 [418,600] (Note 1)	Common stock 1,640,200 [1,598,000] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From May 1, 2017 to May 1, 2026 B. From May 1, 2018 to May 1, 2026 C. From May 1, 2019 to May 1, 2026 D. From May 1, 2020 to May 1, 2026	A. From August 1, 2017 to July 31, 2026 B. From August 1, 2018 to July 31, 2026 C. From August 1, 2019 to July 31, 2026 D. From August 1, 2020 to July 31, 2026
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥1,216 Amount to be included in capital: ¥608 B. Issue price: ¥1,212 Amount to be included in capital: ¥606 C. Issue price: ¥1,207 Amount to be included in capital: ¥604 D. Issue price: ¥1,203 Amount to be included in capital: ¥602 (Note 4)	A. Issue price: ¥1,184 Amount to be included in capital: ¥592 B. Issue price: ¥1,180 Amount to be included in capital: ¥590 C. Issue price: ¥1,176 Amount to be included in capital: ¥588 D. Issue price: ¥1,171 Amount to be included in capital: ¥586 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)

(Notes) 1, 4-8 Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Notes 3 of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.

31), 32) Resolution at 19th General Shareholders' Meeting (March 30, 2016)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 30, 2016 (August 4, 2016)	March 30, 2016 (October 28, 2016)
Classification and number of persons received (persons)	Audit & Supervisory Board Members of the Company's subsidiaries and affiliates 3	Employees of the Company's subsidiaries and affiliates 390
Number of Share Options (share options) *	18 [18] (Note 1)	3,629 [3,465] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 1,800 [1,800] (Note 1)	Common stock 362,900 [346,500] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	From March 31, 2020 to March 29, 2026	A. From November 1, 2017 to October 30, 2026 B. From November 1, 2018 to October 30, 2026 C. From November 1, 2019 to October 30, 2026 D. From November 1, 2020 to October 30, 2026
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	Issue price: ¥1,316 Amount to be included in capital: ¥658 (Note 4)	A. Issue price: ¥1,214 Amount to be included in capital: ¥607 B. Issue price: ¥1,210 Amount to be included in capital: ¥605 C. Issue price: ¥1,206 Amount to be included in capital: ¥603 D. Issue price: ¥1,201 Amount to be included in capital: ¥601 (Note 4)
Conditions for exercise of Share Options*	(Note 9)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)
(Notes) 1, 4-8	Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.	
3	Same as Notes 3 of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.	
9	Same as Notes 3 of the Share Options of 12), 13) Resolution at 17th General Shareholders' Meeting held on March 28, 2014.	

33), 34) Resolution at 19th General Shareholders' Meeting (March 30, 2016)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 30, 2016 (January 21, 2017)	March 30, 2016 (January 21, 2017)
Classification and number of persons received (persons)	Audit & Supervisory Board Members of the Company's subsidiaries and affiliates 3	Employees of the Company, Directors and employees of the Company's subsidiaries and affiliates 6,996
Number of Share Options (share options) *	19 [19] (Note 1)	18,555 [16,788] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 1,900 [1,900] (Note 1)	Common stock 1,855,500 [1,678,800] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	From March 31, 2020 to March 29, 2026	A. From February 1, 2018 to February 1, 2027 B. From February 1, 2019 to February 1, 2027 C. From February 1, 2020 to February 1, 2027 D. From February 1, 2021 to February 1, 2027
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	Issue price: ¥1,092 Amount to be included in capital: ¥546 (Note 4)	A. Issue price: ¥1,101 Amount to be included in capital: ¥551 B. Issue price: ¥1,097 Amount to be included in capital: ¥549 C. Issue price: ¥1,093 Amount to be included in capital: ¥547 D. Issue price: ¥1,088 Amount to be included in capital: ¥544 (Note 4)
Conditions for exercise of Share Options*	(Note 9)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)

(Notes) 1, 4-8 Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Notes 3 of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.

9 Same as Notes 3 of the Share Options of 12), 13) Resolution at 17th General Shareholders' Meeting held on March 28, 2014.

35), 36) Resolution at 19th General Shareholders' Meeting (March 30, 2016)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 30, 2016 (January 21, 2017)	March 30, 2016 (February 20, 2017)
Classification and number of persons received (persons)	Employees of the Company and employees of the Company's subsidiaries and affiliates 299	Outside Directors of the Company and Audit & Supervisory Board Members of the Company 9
Number of Share Options (share options) *	1,925 [1,920] (Note 1)	90 [90] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 192,500 [192,000] (Note 1)	Common stock 9,000 [9,000] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From March 1, 2018 to March 1, 2027 B. From March 1, 2019 to March 1, 2027 C. From March 1, 2020 to March 1, 2027 D. From March 1, 2021 to March 1, 2027	From March 31, 2020 to March 29, 2026
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥1,114 Amount to be included in capital: ¥557 B. Issue price: ¥1,110 Amount to be included in capital: ¥555 C. Issue price: ¥1,106 Amount to be included in capital: ¥553 D. Issue price: ¥1,101 Amount to be included in capital: ¥551 (Note 4)	Issue price: ¥1,105 Amount to be included in capital: ¥553 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 9)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)

(Notes) 1, 4-8 Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Notes 3 of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.

9 Same as Notes 3 of the Share Options of 12), 13) Resolution at 17th General Shareholders' Meeting held on March 28, 2014.

37) Resolution at 19th General Shareholders' Meeting (March 30, 2016)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 30, 2016 (February 20, 2017)
Classification and number of persons received (persons)	Directors and employees of the Company, Directors and employees of the Company's subsidiaries and affiliates 244
Number of Share Options (share options) *	10,312 [10,272] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 1,031,200 [1,027,200] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option
Exercise period of Share Options*	A. From March 1, 2018 to March 1, 2027 B. From March 1, 2019 to March 1, 2027 C. From March 1, 2020 to March 1, 2027 D. From March 1, 2021 to March 1, 2027
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥1,114 Amount to be included in capital: ¥557 B. Issue price: ¥1,110 Amount to be included in capital: ¥555 C. Issue price: ¥1,106 Amount to be included in capital: ¥553 D. Issue price: ¥1,101 Amount to be included in capital: ¥551 (Note 4)
Conditions for exercise of Share Options*	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)

(Notes) 1, 4-8 Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Notes 3 of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.

38), 39) Resolution at 20th General Shareholders' Meeting (March 30, 2017)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 30, 2017 (April 24, 2017)	March 30, 2017 (July 28, 2017)
Classification and number of persons received (persons)	Directors and employees of the Company's subsidiaries and affiliates 442	Audit & Supervisory Board Members of the Company's subsidiaries and affiliates 2
Number of Share Options (share options) *	8,570 [8,570] (Note 1)	9 [9] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 857,000 [857,000] (Note 1)	Common stock 900 [900] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From May 1, 2018 to April 30, 2027 B. From May 1, 2019 to April 30, 2027 C. From May 1, 2020 to April 30, 2027 D. From May 1, 2021 to April 30, 2027	From March 31, 2021 to March 29, 2027
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥1,128 Amount to be included in capital: ¥564 B. Issue price: ¥1,124 Amount to be included in capital: ¥562 C. Issue price: ¥1,120 Amount to be included in capital: ¥560 D. Issue price: ¥1,115 Amount to be included in capital: ¥558 (Note 4)	Issue price: ¥1,333 Amount to be included in capital: ¥667 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 9)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)
(Notes) 1, 4-8	Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.	
3	Same as Notes 3 of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.	
9	Same as Notes 3 of the Share Options of 12), 13) Resolution at 17th General Shareholders' Meeting held on March 28, 2014.	

40), 41) Resolution at 20th General Shareholders' Meeting (March 30, 2017)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 30, 2017 (July 28, 2017)	March 30, 2017 (October 24, 2017)
Classification and number of persons received (persons)	Employees of the Company, Directors and employees of the Company's subsidiaries and affiliates 7,378	Directors and employees of the Company's subsidiaries and affiliates 510
Number of Share Options (share options) *	23,604 [23,380] (Note 1)	7,974 [7,872] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 2,360,400 [2,338,000] (Note 1)	Common stock 797,400 [787,200] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From August 1, 2018 to July 30, 2027 B. From August 1, 2019 to July 30, 2027 C. From August 1, 2020 to July 30, 2027 D. From August 1, 2021 to July 30, 2027	A. From November 1, 2018 to November 1, 2027 B. From November 1, 2019 to November 1, 2027 C. From November 1, 2020 to November 1, 2027 D. From November 1, 2021 to November 1, 2027
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥1,345 Amount to be included in capital: ¥673 B. Issue price: ¥1,341 Amount to be included in capital: ¥671 C. Issue price: ¥1,336 Amount to be included in capital: ¥668 D. Issue price: ¥1,332 Amount to be included in capital: ¥666 (Note 4)	A. Issue price: ¥1,188 Amount to be included in capital: ¥594 B. Issue price: ¥1,184 Amount to be included in capital: ¥592 C. Issue price: ¥1,179 Amount to be included in capital: ¥590 D. Issue price: ¥1,175 Amount to be included in capital: ¥588 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)
(Notes) 1, 4-8	Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.	
3	Same as Notes 3 of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.	

42), 43) Resolution at 20th General Shareholders' Meeting (March 30, 2017)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 30, 2017 (December 14, 2017)	March 30, 2017 (January 18, 2018)
Classification and number of persons received (persons)	Employees of the Company's subsidiaries and affiliates 272	Audit & Supervisory Board Members of the Company's subsidiaries and affiliates 3
Number of Share Options (share options) *	465 [459] (Note 1)	17 [17] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 46,500 [45,900] (Note 1)	Common stock 1,700 [1,700] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From January 1, 2019 to December 29, 2027 B. From January 1, 2020 to December 29, 2027 C. From January 1, 2021 to December 29, 2027 D. From January 1, 2022 to December 29, 2027	From March 31, 2021 to March 29, 2027
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥1,027 Amount to be included in capital: ¥514 B. Issue price: ¥1,023 Amount to be included in capital: ¥512 C. Issue price: ¥1,019 Amount to be included in capital: ¥510 D. Issue price: ¥1,014 Amount to be included in capital: ¥507 (Note 4)	Issue price: ¥972 Amount to be included in capital: ¥486 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 9)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)

(Notes) 1, 4-8 Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Notes 3 of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.

9 Same as Notes 3 of the Share Options of 12), 13) Resolution at 17th General Shareholders' Meeting held on March 28, 2014.

44), 45) Resolution at 20th General Shareholders' Meeting (March 30, 2017)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 30, 2017 (January 18, 2018)	March 30, 2017 (January 18, 2018)
Classification and number of persons received (persons)	Employees of the Company, Directors and employees of the Company's subsidiaries and affiliates 7,318	Employees of the Company's subsidiaries and affiliates 317
Number of Share Options (share options) *	24,706 [23,023] (Note 1)	3,010 [3,004] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 2,470,600 [2,302,300] (Note 1)	Common stock 301,000 [300,400] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From February 1, 2019 to February 1, 2028 B. From February 1, 2020 to February 1, 2028 C. From February 1, 2021 to February 1, 2028 D. From February 1, 2022 to February 1, 2028	A. From March 1, 2019 to March 1, 2028 B. From March 1, 2020 to March 1, 2028 C. From March 1, 2021 to March 1, 2028 D. From March 1, 2022 to March 1, 2028
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥981 Amount to be included in capital: ¥491 B. Issue price: ¥977 Amount to be included in capital: ¥489 C. Issue price: ¥972 Amount to be included in capital: ¥486 D. Issue price: ¥968 Amount to be included in capital: ¥484 (Note 4)	A. Issue price: ¥948 Amount to be included in capital: ¥474 B. Issue price: ¥943 Amount to be included in capital: ¥472 C. Issue price: ¥939 Amount to be included in capital: ¥470 D. Issue price: ¥935 Amount to be included in capital: ¥468 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)
(Notes) 1, 4-8	Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.	
3	Same as Notes 3 of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.	

46), 47) Resolution at 20th General Shareholders' Meeting (March 30, 2017)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 30, 2017 (February 19, 2018)	March 30, 2017 (February 19, 2018)
Classification and number of persons received (persons)	Outside Directors of the Company and Audit & Supervisory Board Members of the Company 9	Directors and employees of the Company, Directors and employees of the Company's subsidiaries and affiliates 117
Number of Share Options (share options) *	189 [189] (Note 1)	12,611 [12,611] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 18,900 [18,900] (Note 1)	Common stock 1,261,100 [1,261,100] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	From March 31, 2021 to March 29, 2027	A. From March 1, 2019 to March 1, 2028 B. From March 1, 2020 to March 1, 2028 C. From March 1, 2021 to March 1, 2028 D. From March 1, 2022 to March 1, 2028
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	Issue price: ¥939 Amount to be included in capital: ¥470 (Note 4)	A. Issue price: ¥948 Amount to be included in capital: ¥474 B. Issue price: ¥943 Amount to be included in capital: ¥472 C. Issue price: ¥939 Amount to be included in capital: ¥470 D. Issue price: ¥935 Amount to be included in capital: ¥468 (Note 4)
Conditions for exercise of Share Options*	(Note 9)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)
(Notes) 1, 4-8	Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.	
3	Same as Notes 3 of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.	
9	Same as Notes 3 of the Share Options of 12), 13) Resolution at 17th General Shareholders' Meeting held on March 28, 2014.	

48), 49) Resolution at 21st General Shareholders' Meeting (March 29, 2018)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 29, 2018 (April 27, 2018)	March 29, 2018 (July 27, 2018)
Classification and number of persons received (persons)	Directors of the Company, Directors and employees of the Company's subsidiaries and affiliates 1,264	Directors and employees of the Company's subsidiaries and affiliates 7,503
Number of Share Options (share options) *	26,489 [26,295] (Note 1)	56,777 [56,505] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 2,648,900 [2,629,500] (Note 1)	Common stock 5,677,700 [5,650,500] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From May 1, 2019 to May 1, 2028 B. From May 1, 2020 to May 1, 2028 C. From May 1, 2021 to May 1, 2028 D. From May 1, 2022 to May 1, 2028	A. From August 1, 2019 to August 1, 2028 B. From August 1, 2020 to August 1, 2028 C. From August 1, 2021 to August 1, 2028 D. From August 1, 2022 to August 1, 2028
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥795 Amount to be included in capital: ¥398 B. Issue price: ¥790 Amount to be included in capital: ¥395 C. Issue price: ¥786 Amount to be included in capital: ¥393 D. Issue price: ¥782 Amount to be included in capital: ¥391 (Note 4)	A. Issue price: ¥777 Amount to be included in capital: ¥389 B. Issue price: ¥773 Amount to be included in capital: ¥387 C. Issue price: ¥768 Amount to be included in capital: ¥384 D. Issue price: ¥764 Amount to be included in capital: ¥382 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)
(Notes) 1, 4-8	Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.	
3	Same as Notes 3 of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.	

50), 51) Resolution at 21st General Shareholders' Meeting (March 29, 2018)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 29, 2018 (October 26, 2018)	March 29, 2018 (January 18, 2019)
Classification and number of persons received (persons)	Directors and employees of the Company's subsidiaries and affiliates 219	Employees of the Company, Directors and employees of the Company's subsidiaries and affiliates 8,417
Number of Share Options (share options) *	6,643 [6,601] (Note 1)	49,207 [46,872] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 664,300 [660,100] (Note 1)	Common stock 4,920,700 [4,687,200] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From November 1, 2019 to November 1, 2028 B. From November 1, 2020 to November 1, 2028 C. From November 1, 2021 to November 1, 2028 D. From November 1, 2022 to November 1, 2028	A. From February 1, 2020 to February 1, 2029 B. From February 1, 2021 to February 1, 2029 C. From February 1, 2022 to February 1, 2029 D. From February 1, 2023 to February 1, 2029
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥783 Amount to be included in capital: ¥392 B. Issue price: ¥778 Amount to be included in capital: ¥389 C. Issue price: ¥774 Amount to be included in capital: ¥387 D. Issue price: ¥769 Amount to be included in capital: ¥385 (Note 4)	A. Issue price: ¥798 Amount to be included in capital: ¥399 B. Issue price: ¥793 Amount to be included in capital: ¥397 C. Issue price: ¥789 Amount to be included in capital: ¥395 D. Issue price: ¥784 Amount to be included in capital: ¥392 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)

(Notes) 1, 4-8 Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Notes 3 of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.

52), 53) Resolution at 21st General Shareholders' Meeting (March 29, 2018)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 29, 2018 (January 18, 2019)	March 29, 2018 (February 22, 2019)
Classification and number of persons received (persons)	Employees of the Company's subsidiaries and affiliates 321	Employees of the Company, Directors and employees of the Company's subsidiaries and affiliates 20
Number of Share Options (shares)*	4,008 [4,004] (Note 1)	1,397 [1,397] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares)*	Common stock 400,800 [400,400] (Note 1)	Common stock 139,700 [139,700] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From March 1, 2020 to March 1, 2029 B. From March 1, 2021 to March 1, 2029 C. From March 1, 2022 to March 1, 2029 D. From March 1, 2023 to March 1, 2029	A. From March 1, 2020 to March 1, 2029 B. From March 1, 2021 to March 1, 2029 C. From March 1, 2022 to March 1, 2029 D. From March 1, 2023 to March 1, 2029
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥880 Amount to be included in capital: ¥440 B. Issue price: ¥875 Amount to be included in capital: ¥438 C. Issue price: ¥871 Amount to be included in capital: ¥436 D. Issue price: ¥866 Amount to be included in capital: ¥433 (Note 4)	A. Issue price: ¥880 Amount to be included in capital: ¥440 B. Issue price: ¥875 Amount to be included in capital: ¥438 C. Issue price: ¥871 Amount to be included in capital: ¥436 D. Issue price: ¥866 Amount to be included in capital: ¥433 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)
(Notes) 1, 4-8	Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.	
3	Same as Notes 3 of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.	

54), 55) Resolution at 22nd General Shareholders' Meeting (March 28, 2019)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 28, 2019 (April 26, 2019)	March 28, 2019 (April 26, 2019)
Classification and number of persons received (persons)	Employees of the Company, Directors and employees of the Company's subsidiaries and affiliates 1,501	Directors of the Company who serve concurrently as Executive Officers of the Company and Executive Officers of the Company 55
Number of Share Options (share options)*	41,899 [41,860] (Note 1)	12,080 [12,080] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares)*	Common stock 4,189,900 [4,186,000] (Note 1)	Common stock 1,208,000 [1,208,000] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From May 1, 2020 to May 1, 2029 B. From May 1, 2021 to May 1, 2029 C. From May 1, 2022 to May 1, 2029 D. From May 1, 2023 to May 1, 2029	From November 1, 2019 to May 1, 2059 The Company may change the schedule during which holders of Share Options can exercise the Share Options.
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥1,195 Amount to be included in capital: ¥598 B. Issue price: ¥1,191 Amount to be included in capital: ¥596 C. Issue price: ¥1,187 Amount to be included in capital: ¥594 D. Issue price: ¥1,182 Amount to be included in capital: ¥591 (Note 4)	Issue price: ¥1,175 Amount to be included in capital: ¥588 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 9)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)

(Notes) 1, 4-8 Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Conditions for exercise of Share Options

- 1) Those who received an allotment of the issue of Share Options (hereinafter "Holders of Share Options") will remain Directors (excluding Outside Directors), Executive Officers, Audit & Supervisory Board Members or employees of the Company, or its subsidiaries or affiliates at the time of exercising such rights; provided, however, that exceptional treatment may be allowed in this regard by the Board of Directors in consideration of circumstances and in the event where the Holders of Share Options have made applications for the exercise of Share Options in accordance with the procedures prescribed by the Company by the date of retirement (or by the application date immediately following the date of retirement if it is recognized that there are justifiable

- grounds for not being able to make the application by the date of retirement).
- 2) Same as Notes 3 2) of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.
 - 3) Same as Notes 3 3) of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.
 - 4) Same as Notes 3 4) of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.
 - 5) Same as Notes 3 5) of the Share Options of 19), 20) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.
- 9 Conditions for exercise of Share Options
- 1) Those who received an allotment of the issue of Share Options (hereinafter "Holders of Share Options"), shall exercise such rights within ten days from the date following the date on which they retire as Directors, Executive Officers, Audit & Supervisory Board Members and
 - 2) Same as Notes 3 2) of the Share Options of 12), 13) Resolution at 17th General Shareholders' Meeting held on March 28, 2014.
 - 3) Same as Notes 3 3) of the Share Options of 12), 13) Resolution at 17th General Shareholders' Meeting held on March 28, 2014.
 - 4) Same as Notes 3 4) of the Share Options of 12), 13) Resolution at 17th General Shareholders' Meeting held on March 28, 2014.

56), 57) Resolution at 22nd General Shareholders' Meeting (March 28, 2019)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 28, 2019 (July 26, 2019)	March 28, 2019 (October 25, 2019)
Classification and number of persons received (persons)	Employees of the Company, Directors and employees of the Company's subsidiaries and affiliates 8,284	Employees of the Company's subsidiaries and affiliates 1,029
Number of Share Options (share options)*	21,107 [21,085] (Note 1)	36,854 [36,630] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares)*	Common stock 2,110,700 [2,108,500] (Note 1)	Common stock 3,685,400 [3,663,000] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From August 1, 2020 to August 1, 2029 B. From August 1, 2021 to August 1, 2029 C. From August 1, 2022 to August 1, 2029 D. From August 1, 2023 to August 1, 2029	A. From November 1, 2020 to November 1, 2029 B. From November 1, 2021 to November 1, 2029 C. From November 1, 2022 to November 1, 2029 D. From November 1, 2023 to November 1, 2029
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥1,118 Amount to be included in capital: ¥559 B. Issue price: ¥1,114 Amount to be included in capital: ¥557 C. Issue price: ¥1,110 Amount to be included in capital: ¥555 D. Issue price: ¥1,105 Amount to be included in capital: ¥553 (Note 4)	A. Issue price: ¥1,019 Amount to be included in capital: ¥510 B. Issue price: ¥1,015 Amount to be included in capital: ¥508 C. Issue price: ¥1,011 Amount to be included in capital: ¥506 D. Issue price: ¥1,006 Amount to be included in capital: ¥503 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)
(Notes) 1, 4-8	Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.	
3	Same as Notes 3 of the Share Options of 54), 55) Resolution at 22nd General Shareholders' Meeting held on March 28, 2019.	

58) Resolution at 22nd General Shareholders' Meeting (March 28, 2019)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 28, 2019 (January 31, 2020)
Classification and number of persons received (persons)	Employees of the Company, Directors and employees of the Company's subsidiaries and affiliates 10,081
Number of Share Options (share options)*	35,756 [35,645] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares)*	Common stock 3,575,600 [3,564,500] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option
Exercise period of Share Options*	A. From February 1, 2021 to February 1, 2030 B. From February 1, 2022 to February 1, 2030 C. From February 1, 2023 to February 1, 2030 D. From February 1, 2024 to February 1, 2030
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥851 Amount to be included in capital: ¥426 B. Issue price: ¥847 Amount to be included in capital: ¥424 C. Issue price: ¥843 Amount to be included in capital: ¥422 D. Issue price: ¥838 Amount to be included in capital: ¥419 (Note 4)
Conditions for exercise of Share Options*	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)

(Notes) 1, 4-8 Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

3 Same as Notes 3 of the Share Options of 54), 55) Resolution at 22nd General Shareholders' Meeting held on March 28, 2019.

59), 60) Resolution at 22nd General Shareholders' Meeting (March 28, 2019)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 28, 2019 (February 28, 2020)	March 28, 2019 (February 28, 2020)
Classification and number of persons received (persons)	Employees of the Company, employees of the Company's subsidiaries and affiliates 50	Executive Officers of the Company 54
Number of Share Options (share options)*	3,620 [3,620] (Note 1)	10,168 [10,168] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares)*	Common stock 362,000 [362,000] (Note 1)	Common stock 1,016,800 [1,016,800] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From March 1, 2021 to March 1, 2030 B. From March 1, 2022 to March 1, 2030 C. From March 1, 2023 to March 1, 2030 D. From March 1, 2024 to March 1, 2030	From March 1, 2020 to March 1, 2060
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥898 Amount to be included in capital: ¥449 B. Issue price: ¥894 Amount to be included in capital: ¥447 C. Issue price: ¥890 Amount to be included in capital: ¥445 D. Issue price: ¥885 Amount to be included in capital: ¥443 (Note 4)	Issue price: ¥878 Amount to be included in capital: ¥439 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 9)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)
(Notes) 1, 4-8	Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.	
3	Same as Notes 3 of the Share Options of 54), 55) Resolution at 22nd General Shareholders' Meeting held on March 28, 2019.	
9	Same as Notes 9 of the Share Options of 54), 55) Resolution at 22nd General Shareholders' Meeting held on March 28, 2019.	

61), 62) Resolution at Meeting of the Board of Directors (April 16, 2020)

Date of resolution at Meeting of the Board of Directors	April 16, 2020	April 16, 2020
Classification and number of persons received (persons)	Employees of the Company, employees of the Company's subsidiaries and affiliates 2,012	Directors of the Company who serve concurrently as Executive Officers of the Company and Executive Officers of the Company 9
Number of Share Options (share options) *	65,106 [65,106] (Note 1)	1,770 [1,770] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 6,510,600 [6,510,600] (Note 1)	Common stock 177,000 [177,000] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option (Note 2)	¥1 per share option (Note 2)
Exercise period of Share Options*	A. From May 1, 2021 to May 1, 2030 B. From May 1, 2022 to May 1, 2030 C. From May 1, 2023 to May 1, 2030 D. From May 1, 2024 to May 1, 2030	From May 1, 2020 to May 1, 2060
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥909 Amount to be included in capital: ¥455 B. Issue price: ¥905 Amount to be included in capital: ¥453 C. Issue price: ¥901 Amount to be included in capital: ¥451 D. Issue price: ¥896 Amount to be included in capital: ¥448 (Note 4)	Issue price: ¥889 Amount to be included in capital: ¥445 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 9)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)
(Notes) 1, 4-8	Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.	
2	Value of the assets to be contributed upon the exercise of Share Options The value shall be ¥1 per share option.	
3	Same as Notes 3 of the Share Options of 54), 55) Resolution at 22nd General Shareholders' Meeting held on March 28, 2019.	
9	Same as Notes 9 of the Share Options of 54), 55) Resolution at 22nd General Shareholders' Meeting held on March 28, 2019.	

63) Resolution at Meeting of the Board of Directors (July 16, 2020),
64) Resolution at Meeting of the Board of Directors (October 7, 2020)

Date of resolution at Meeting of the Board of Directors	July 16, 2020	October 7, 2020
Classification and number of persons received (persons)	Employees of the Company, Directors and employees of the Company's subsidiaries and affiliates 10,804	Employees of the Company's subsidiaries and affiliates 196
Number of Share Options (share options) *	35,409 [35,409] (Note 1)	8,005 [8,005] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 3,540,900 [3,540,900] (Note 1)	Common stock 800,500 [800,500] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option (Note 2)	¥1 per share option (Note 2)
Exercise period of Share Options*	A. From August 1, 2021 to August 1, 2030 B. From August 1, 2022 to August 1, 2030 C. From August 1, 2023 to August 1, 2030 D. From August 1, 2024 to August 1, 2030	A. From November 1, 2021 to November 1, 2030 B. From November 1, 2022 to November 1, 2030 C. From November 1, 2023 to November 1, 2030 D. From November 1, 2024 to November 1, 2030
Issue price for shares issued through exercise of Share Options and the amount to be included in capital*	A. Issue price: ¥960 Amount to be included in capital: ¥480 B. Issue price: ¥956 Amount to be included in capital: ¥478 C. Issue price: ¥952 Amount to be included in capital: ¥476 D. Issue price: ¥947 Amount to be included in capital: ¥474 (Note 4)	A. Issue price: ¥1,010 Amount to be included in capital: ¥505 B. Issue price: ¥1,006 Amount to be included in capital: ¥503 C. Issue price: ¥1,002 Amount to be included in capital: ¥501 D. Issue price: ¥997 Amount to be included in capital: ¥499 (Note 4)
Conditions for exercise of Share Options*	(Note 3)	(Note 3)
Matters concerning transfer of Share Options*	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring*	(Note 7)	(Note 7)
(Notes) 1, 4-8	Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012. 2 Same as Notes 2 of the Share Options of 61), 62) Resolution at Meeting of the Board of Directors held on April 16, 2020. 3 Same as Notes 3 of the Share Options of 54), 55) Resolution at 22nd General Shareholders' Meeting held on March 28, 2019.	

65) Resolution at Meeting of the Board of Directors (January 14, 2021)

Date of resolution at Meeting of the Board of Directors	January 14, 2021
Classification and number of persons received (persons)	Employees of the Company, Directors and employees of the Company's subsidiaries and affiliates 12,814
Number of Share Options (share options)	39,652 (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares)	Common stock 3,965,200 (Note 1)
Cash payment upon exercise of Share Options	¥1 per share option (Note 2)
Exercise period of Share Options	A. From February 1, 2022 to February 1, 2031 B. From February 1, 2023 to February 1, 2031 C. From February 1, 2024 to February 1, 2031 D. From February 1, 2025 to February 1, 2031
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	A. Issue price: ¥1,008 Amount to be included in capital: ¥504 B. Issue price: ¥1,004 Amount to be included in capital: ¥502 C. Issue price: ¥1,000 Amount to be included in capital: ¥500 D. Issue price: ¥995 Amount to be included in capital: ¥498 (Note 4)
Conditions for exercise of Share Options	(Note 3)
Matters concerning transfer of Share Options	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)
(Notes) 1, 4-8	Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.
2	Same as Notes 2 of the Share Options of 61), 62) Resolution at Meeting of the Board of Directors held on April 16, 2020.
3	Same as Notes 3 of the Share Options of 54), 55) Resolution at 22nd General Shareholders' Meeting held on March 28, 2019.

66), 67) Resolution at Meeting of the Board of Directors (February 12, 2021)

Date of resolution at Meeting of the Board of Directors	February 12, 2021	February 12, 2021
Classification and number of persons received (persons)	Employees of the Company, employees of the Company's subsidiaries and affiliates 102	Executive Officers of the Company 54
Number of Share Options (share options)	3,850 (Note 1)	8,635 (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares)	Common stock 385,000 (Note 1)	Common stock 863,500 (Note 1)
Cash payment upon exercise of Share Options	¥1 per share option (Note 2)	¥1 per share option (Note 2)
Exercise period of Share Options	A. From March 1, 2022 to March 1, 2031 B. From March 1, 2023 to March 1, 2031 C. From March 1, 2024 to March 1, 2031 D. From March 1, 2025 to March 1, 2031	From March 1, 2021 to March 1, 2061
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	A. Issue price: ¥1,162 Amount to be included in capital: ¥581 B. Issue price: ¥1,158 Amount to be included in capital: ¥579 C. Issue price: ¥1,154 Amount to be included in capital: ¥577 D. Issue price: ¥1,149 Amount to be included in capital: ¥575 (Note 4)	Issue price: ¥1,142 Amount to be included in capital: ¥571 (Note 4)
Conditions for exercise of Share Options	(Note 3)	(Note 9)
Matters concerning transfer of Share Options	(Note 6)	(Note 6)
Matters concerning issuance of Share Options accompanying organizational restructuring	(Note 7)	(Note 7)

(Notes) 1, 4-8 Same as Notes 1, 4-8 of the Share Options of 1) Resolution at 15th General Shareholders' Meeting held on March 29, 2012.

2 Same as Notes 2 of the Share Options of 61), 62) Resolution at Meeting of the Board of Directors held on April 16, 2020.

3 Same as Notes 3 of the Share Options of 54), 55) Resolution at 22nd General Shareholders' Meeting held on March 28, 2019.

9 Same as Notes 9 of the Share Options of 54), 55) Resolution at 22nd General Shareholders' Meeting held on March 28, 2019.

2) Rights Plans

Not applicable.

3) Other Status of Share Options

Not applicable.

(3) Status in the Exercise of Bonds with Share Options with Exercise Price Amendment
Not applicable.

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

(Millions of Yen, unless otherwise stated)

Period	Changes in the total number of shares issued (shares)	Balance of the total number of shares issued (shares)	Changes in common stock	Balance of common stock	Changes in legal capital surplus	Balance of legal capital surplus
From January 1, 2016 to December 31, 2016 (Note)	2,048,700	1,432,422,600	974	204,562	974	172,099
From January 1, 2017 to November 30, 2017 (Note)	2,151,300	1,434,573,900	1,361	205,924	1,361	173,460

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

2 Upon the exercise of Share Options from January 1, 2021 to February 28, 2021, the total number of shares issued and amounts of common stock and legal capital surplus increased by 688,000 shares, ¥333 million and ¥333 million, respectively.

3 Upon the issuance of new shares through third-party allotment for which payments were made on March 29, 2021 by the allottees Japan Post Holdings Co., Ltd., Mikitani Kosan, Inc., and Spirit Inc, the total number of shares issued and amounts of common stock and legal capital surplus increased by 139,737,600 shares, ¥80,000 million and ¥80,000 million, respectively. The issue price for shares in this offering and the amounts to be included in capital are ¥1,145 and ¥573, respectively.

(5) Status of Shareholders

As of December 31, 2020

As of December 31, 2020										
Classification	Status of shares (the number of minimum unit is 100 shares)								Status of shares below unit (shares)	
	Government and local municipalities	Domestic Financial institutions	Financial instruments business operators	Other Domestic corporations	Foreign corporations, etc.		Individuals and others	Total		
					Others	Individuals				
Number of shareholders	1	50	50	897	797	2,120	239,892	243,807	—	
Number of shares held (Unit)	1,170	2,265,636	159,899	2,478,325	4,034,091	33,442	5,371,159	14,343,722	201,700	
Percentage of shares held (%)	0.01	15.80	1.11	17.28	28.12	0.23	37.45	100.00	—	

(Note) 72,073,137 shares of treasury shares are included as 720,731 units in the item of "Individuals and others" and as 37 shares in the "Status of shares below unit."

(6) Major Shareholders

As of December 31, 2020			
Name	Address	Number of shares held (shares)	Percentage of shares held to the total number of issued shares (%)
Crimson Group, Inc.	ARK Hills Executive Tower N211, 1-14-5 Akasaka, Minato-ku, Tokyo	226,419,000	16.62
Hiroshi Mikitani	Minato-ku, Tokyo	176,346,300	12.94
Haruko Mikitani	Shibuya-ku, Tokyo	132,625,000	9.73
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	81,798,200	6.00
Custody Bank of Japan, Ltd. (Trust account)	1-8-12 Harumi, Chuo-ku, Tokyo	47,458,300	3.48
NORTHERN TRUST CO. (AVFC) SUB A/C NON TREATY (Standing proxy: Custody Operations Division, Tokyo Branch, The Hong Kong and Shanghai Banking Corporation Limited)	50 BANK STREET CANARY WHARF LONDON E 14 5NT, UK (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	28,918,451	2.12
Custody Bank of Japan, Ltd. (Trust account 7)	1-8-12 Harumi, Chuo-ku, Tokyo	20,548,500	1.51
THE BANK OF NEW YORK MELLON 140051 (Standing proxy: Settlement & Clearing Services Division, Mizuho Bank, Ltd.)	240 GREENWICH STREET, NEW YORK, NY 10286, U.S.A. (SHINAGAWA INTERCITY Tower A, 2-15-1 Konan, Minato-ku, Tokyo)	19,101,400	1.40
Culture Convenience Club Co., Ltd.	12-2 Okahigashicho, Hirakata-shi, Osaka	16,001,000	1.17
STATE STREET BANK WEST CLIENT - TREATY 505234 (Standing proxy: Settlement & Clearing Services Division, Mizuho Bank, Ltd.)	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A. (SHINAGAWA INTERCITY Tower A, 2-15-1 Konan, Minato-ku, Tokyo)	14,808,700	1.09
Total	—	764,024,851	56.06

(Note) In addition to the above, the Company holds 72,073,137 shares of its treasury shares.

(7) Status of Voting Rights

1) Issued shares

As of December 31, 2020

Classification	Number of shares (shares)	Number of voting rights	Details
Shares without voting rights	—	—	—
Shares with limited voting rights (treasury shares, etc.)	—	—	—
Shares with limited voting rights (others)	—	—	—
Shares with full voting rights (treasury shares, etc.)	(Treasury shares) Common stock 72,073,100	—	—
Shares with full voting rights (others)	Common stock 1,362,299,100	13,622,991	—
Shares below unit	Common stock 201,700	—	—
Total number of shares issued	1,434,573,900	—	—
Total voting rights held by all shareholders	—	13,622,991	—

(Note) 37 shares of treasury shares are included in “Shares below unit.”

2) Treasury Shares, etc.

As of December 31, 2020

Shareholder	Address of shareholder	Number of shares held under own name (shares)	Number of shares held under the names of others (shares)	Total (shares)	Percentage of shares held to the total number of issued shares (%)
(Treasury shares)					
Rakuten, Inc.	1-14-1 Tamagawa, Setagaya-ku, Tokyo	72,073,100	—	72,073,100	5.02
Total	—	72,073,100	—	72,073,100	5.02

2. Status of Acquisition of Treasury Shares, etc.

Class of shares, etc. Acquisition of common stock as stipulated in Article 155, Item 7 of the Companies Act

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

(2) Status of the Acquisition of Treasury Shares Resolved at the Meetings of the Board of Directors
Not applicable.

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

Classification	Number of shares (shares)	Total acquisition amount (Thousands of Yen)
Acquired treasury shares during the current fiscal year	—	—
Acquired treasury shares during the current period (Note)	50	48

(Note) The number of acquired treasury shares during the current period does not include the number of shares as a result of the purchase of shares below unit during the period from March 1, 2021 to the filing date of this securities report.

(4) Status of the Disposition and Holding of Acquired Treasury Shares

Classification	Current fiscal year		Current period	
	Number of shares (shares)	Total disposition amount (Millions of Yen)	Number of shares (shares)	Total disposition amount (Millions of Yen)
Acquired treasury shares for which subscribers were solicited	—	—	14,536,000	16,644
Acquired treasury shares that was cancelled	—	—	—	—
Acquired treasury shares transferred due to merger, share exchange, share issuance or company split	1	0	—	—
Others (Disposal of treasury shares associated with execution of share options)	6,245,800	7,364	154,200	182
Number of treasury shares held	72,073,137	—	57,382,987	—

(Note) The number of shares of treasury shares held during the current period does not include the number of acquired or disposed shares during the period from March 1, 2021 to the filing date of this securities report.

3. Basic Policy on Dividends

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

philosophy is as follows.

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

For the current fiscal year, the Company decided to pay a dividend of ¥4.5 per share (¥4.5 per share for the previous fiscal year) from retained earnings at the Meeting of the Board of Directors held on February 12, 2021.

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

Purchase of treasury shares will be determined flexibly, as a financial measure towards contributing to the enhancement of shareholder value.

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

Resolution date	Total dividend amount (Millions of Yen)	Dividend per share (Yen)
February 12, 2021 Resolution at the Meeting of the Board of Directors	6,131	4.50

(Reference) Trends in dividend per share

Fiscal period	20th	21st	22nd	23rd	24th
Year-end	December 2016	December 2017	December 2018	December 2019	December 2020
Dividend per share (Yen)	4.50	4.50	4.50	4.50	4.50

4. Corporate Governance

(1) Overview of Corporate Governance

1) Basic Approach to Corporate Governance

Our corporate mission since founding is based on the empowerment of individuals and society through innovation and entrepreneurship. We achieve social innovation and enrichment by boosting the growth of as many people as possible, while providing services that ensure a high standard of satisfaction for both users and partner enterprises. To achieve this, the Group has been implementing various measures by making rigorous corporate governance its highest priority.

2) Corporate Governance

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

In order to enhance the transparency of management and ensure its appropriateness, efficiency,

fairness, and soundness, the Company has adopted an organizational form of a Company with Audit & Supervisory Board in which Audit & Supervisory Board Members with a high level of independence are responsible for audit functions. A majority of the members of the Audit & Supervisory Board, which conducts audits of management, are Outside Audit & Supervisory Board Members. Additionally, in order to separate the supervisory and executive roles of management, the Company has adopted an Executive Officer System in which the Board retains responsibility for management decision-making and supervision, while Executive Officers are responsible for executive functions.

The Company's Board of Directors, which includes Outside Directors who are highly independent experts from a variety of fields, supervises the execution of business from an objective perspective and engages in casual and multilateral discussions on management. Furthermore, the Company holds meetings, where debates are held about Group management strategy, etc., separately from the meetings of the Board of Directors. Participants also 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, thereby enhancing the effectiveness of corporate governance.

(b) Corporate Organization

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

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

The Board of Directors holds regular meetings, as well as special meetings as required, for the purpose of enhancing medium- to long-term corporate value and shareholder value. Within these meetings, Directors make decisions on important management matters, which are under the authority of the Board of Directors, and supervise the business execution of each Executive Officer. Executive Officers, upon receiving business execution orders from the CEO, carry out business execution within the administrative authority set forth by the Company. The current members of the Board of Directors are nine Directors, namely Mr. Hiroshi Mikitani (Representative Director, Chairman, President & CEO), Mr. Masayuki Hosaka (Representative Director & Vice Chairman), Mr. Charles B. Baxter (Director), Mr. Kentaro Hyakuno (Director), Mr. Ken Kutaragi (Outside Director), Ms. Sarah J. M. Whitley (Outside Director), Mr. Takashi Mitachi (Outside Director), Mr. Jun Murai (Outside Director), and Mr. John V. Roos (Outside Director), with Mr. Hiroshi Mikitani (Representative Director, Chairman, President & CEO) serving as the Chairman of the Board. 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.

(Audit & Supervisory Board Members and the Audit & Supervisory Board)

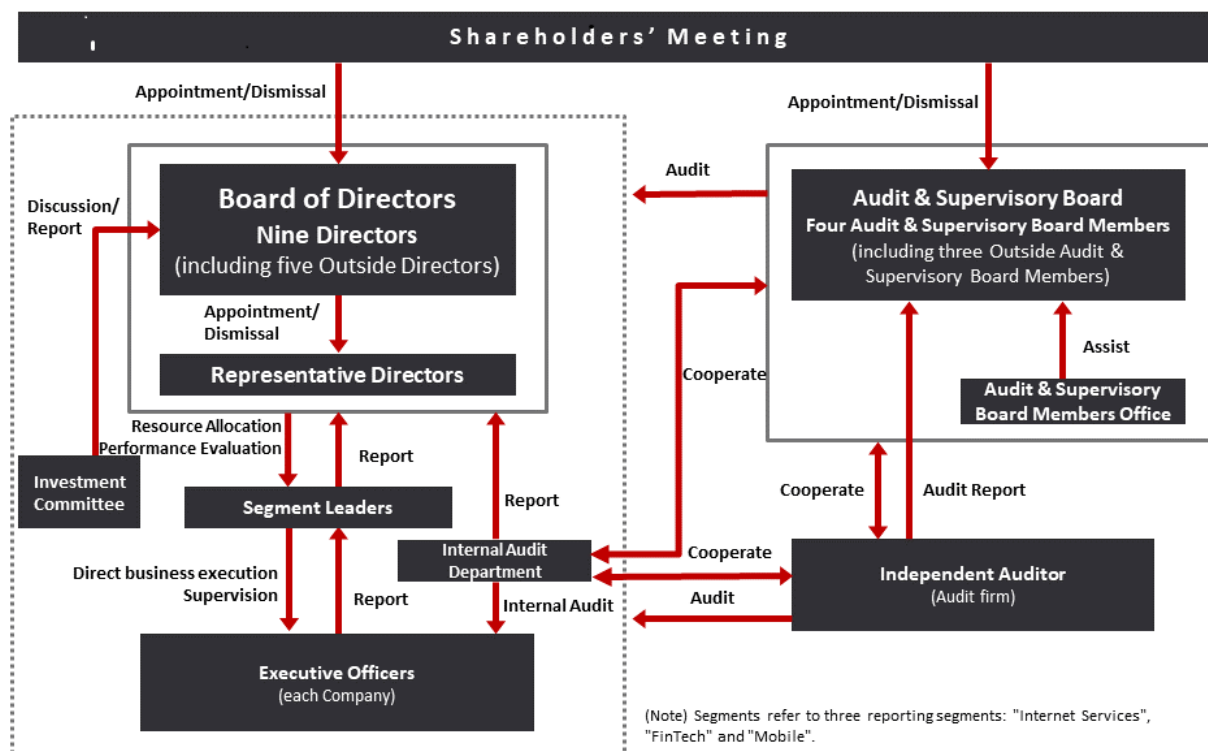
The Company has four Audit & Supervisory Board Members, and a majority of the four are Outside Audit & Supervisory Board Members. And then, Outside Members includes one Full-time officer.

A two-member Audit & Supervisory Board Members' Office assists the Audit & Supervisory Board Members in the performance of their duties. In addition to its regular meetings, the Audit & Supervisory Board holds special meetings as required.

The purpose of the Audit & Supervisory Board is to receive reports, hold discussions, and make decisions regarding important audit-related matters. However, it does not prevent each Audit & Supervisory Board Member from exercising their individual authority.

In accordance with audit policies and plans established by the Audit & Supervisory Board, the Audit & Supervisory Board Members attend meetings of the Board of Directors and other important management meetings to receive reports about the state of the Company's operations from Directors and employees, and they also check the operations of the Company and its subsidiaries. In addition, the Audit & Supervisory Board Members receive audit reports from the independent auditors, audit financial statements and business reports, and discuss various matters with the CEO. The current members of the Audit & Supervisory Board are Mr. Yoshiaki Nishikawa (Audit & Supervisory Board Member, Full-time), Mr. Masahide Hiramoto (Outside Audit & Supervisory Board Member, Full-time), Mr. Takeo Hirata (Outside Audit & Supervisory Board Member), and Mr. Katsuyuki Yamaguchi (Outside Audit & Supervisory Board Member), with Mr. Yoshiaki Nishikawa (Audit & Supervisory Board Member, Full-time) serving as the Chairman of the Board.

<Corporate Governance Structure>



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 Rakuten Group are conducted in an appropriate manner. The Company has created such systems in accordance with this resolution.

(1) System for Ensuring Directors and Employees Comply with Laws, Regulations and the "Articles of Incorporation"

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

Moreover, Outside Directors and Audit & Supervisory Board Members including Outside Audit & Supervisory Board Members shall also thoroughly supervise and audit the execution of duties by Directors and employees. To technically and objectively verify compliance with laws, regulations and the "Articles of Incorporation", lawyers shall be appointed for those positions.

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

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

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

(3) System for Risk Management

Under Rakuten, Inc.'s internal Company System structure, Company Presidents will be responsible for appropriately dealing with risks that arise in the course of performing individual Companies' business operations, in accordance with Rakuten Group Regulations and other internal regulations. The CFO, CISO, COO and Function CCO will liaise with each Company President to manage Company-specific risks in relation to their respective fields of finance, information security, and compliance, etc., as well as important Group-wide risks relating to their respective fields.

For risks relating to information security, including Information Security Management System (ISMS) certification for major businesses in Rakuten Group, the CISO conducts thorough risk management at a Group-wide level.

In order to appropriately manage risks arising from business investments or related activities, all investment proposals are required to be discussed at the Rakuten, Inc. Investment Committee, and further approved by the Rakuten, Inc. Board of Directors for proposals exceeding a certain amount.

The Internal Audit Department of Rakuten, Inc. will, from an independent standpoint, carry out audits of Rakuten, Inc. and the Group Companies' status of compliance with laws and related Rakuten Group Regulations, and regularly report to the Rakuten, Inc. Board of Directors.

(4) System Allowing Directors to Efficiently Carry Out their Duties

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

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

(5) System to Report Financial Information Appropriately

A system shall be developed to ensure appropriate operations for financial reporting related to the disclosure of management information, financial information, etc. In addition, generally accepted accounting practices, and timely disclosure based on "Financial Instruments and Exchange Act" and other applicable domestic and foreign laws and regulations shall be conducted and effectiveness of these shall be evaluated accordingly.

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

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

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

(7) Requests from Audit & Supervisory Board Members for Employees' Assistance and Employees' Independence from Directors

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

(8) System for Directors and Employees to Report to Audit & Supervisory Board Members and for Audit & Supervisory Board Members to Carry Out Effective Audits

Directors and employees of Rakuten Group shall give all legally required reports to Audit & Supervisory Board Members and provide additional necessary reports and information if the Audit & Supervisory Board Member requests it. Rakuten, Inc. will ensure the effectiveness of audits through prohibiting the retribution for reporting against those who report to the Audit &

Supervisory Board Members.

Additionally, if Rakuten, Inc. receives a request for prepayment of expenses or repayment from Audit & Supervisory Board Members, it shall pay the expense or debt promptly unless the expenses are proved not to be necessary for the execution of the Audit & Supervisory Board Member's duty.

4) Overview of Liability Limitation Agreements

The Company has signed an agreement with each of its Directors (excluding Executive Directors, etc.) and Audit & Supervisory Board Members under the provisions of Article 427, Paragraph 1 of the Companies Act. This agreement is summarized below:

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

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

1. If the Rights have been exercised

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

2. If the Rights have been transferred

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

5) Other Provisions of the Articles of Incorporation

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

The Articles of Incorporation of the Company state that, unless otherwise stipulated in laws and regulations, the Board of Directors is authorized to pass resolutions on matters pertaining to the distribution of surpluses and other matters, as stipulated in the items of Article 459, Paragraph 1 of the Companies Act, without resolutions of shareholders' meetings. The purpose of this provision is to allow the Board of Directors to implement a flexible dividend policy.

(b) Items Requiring Special Resolutions of Shareholders' Meetings

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

the administration of shareholders' meetings by easing the quorum requirements for special resolutions.

(2) Directors

1) List of Officers

12 male, 1 female (Percentage of female: 7.7%)

Title and position	Name	Date of birth	Career summary		Term	Number of shares of the Company held (Thousands of shares)
Representative Director, Chairman and President and Chief Executive Officer	Hiroshi Mikitani	March 11, 1965	April 1988	Joined the Industrial Bank of Japan, Limited (currently Mizuho Bank, Ltd.)	March 2021 to March 2022	176,346
			May 1993	Received MBA from Harvard Business School		
			February 1996	President & Representative Director (currently Representative Partner) of Crimson Group, Inc. (currently Crimson Group, LLC.) (current position)		
			February 1997	Founder & President & Representative Director of the Company		
			February 2001	Chairman, President & Representative Director of the Company (current position)		
			March 2004	Chief Executive Officer of the Company (current position)		
			April 2006	Chairman & Representative Director of Crimson Football Club, Inc. (currently Rakuten Vissel Kobe, Inc.) (current position)		
			January 2008	Chairman & Representative Director of Rakuten Baseball, Inc.		
			February 2010	Representative Director of Japan e-business Association (currently Japan Association of New Economy) (current position)		
			October 2011	Chairman of Tokyo Philharmonic Orchestra (current position)		
			August 2012	Chairman & Representative Director & team owner of Rakuten Baseball, Inc. (current position)		
			August 2016	Chairman & Director of Aspyrian Therapeutics, Inc. (currently Rakuten Medical, Inc.)		
			July 2017	Chairman & CEO of Rakuten Aspyrian Japan K.K. (currently Rakuten Medical Japan K.K.) (current position)		
			January 2018	Chairman & Representative Director of Rakuten Mobile Network, Inc. (currently Rakuten Mobile, Inc.)		
			November 2018	Chairman & CEO of Rakuten Aspyrian, Inc. (currently Rakuten Medical, Inc.) (current position)		
			January 2020	Representative Director, Chairman and CEO of Rakuten Mobile, Inc. (current position)		
			February 2020	Director of AST & Science, LLC (current position)		

Title and position	Name	Date of birth	Career summary		Term	Number of shares of the Company held (Thousands of shares)
Representative Director, Executive Vice Chairman	Masayuki Hosaka	July 31, 1954	April 1980 December 2003 May 2005 February 2006 March 2007 April 2009 February 2013 January 2014 March 2014 April 2016 July 2016	Joined ORIX Credit Corporation General Manager of Personal Finance Department of the Company Executive Officer of the Company President & Representative Director of Rakuten Credit, Inc. (currently Rakuten Card Co., Ltd.) Vice Chairman & Director of Rakuten Credit, Inc. President & Representative Director of Rakuten Credit, Inc. (current position) Managing Executive Officer of the Company Executive Vice President of the Company Representative Director of the Company (current position) Vice Chairman of the Company (current position) President of Card & Payments Company (currently Fintech Group Company) (current position)	March 2021 to March 2022	212
Director	Charles B. Baxter	April 19, 1965	October 1998 March 2001 March 2003 July 2004 March 2011 February 2012 January 2015	CEO of eTranslate, Inc. Director of the Company Retired as Director of the Company Chairman of Wineshipping.com LLC (current position) Director of the Company (current position) Chairman & Director of Rakuten USA, Inc. (current position) Chairman of Reyns Holdco, Inc. (current position)	March 2021 to March 2022	—

Director Executive Vice President	Kentaro Hyakuno	June 6, 1967	June 1990	Joined Toyota Motor Corporation	March 2021 to March 2022	311
			February 2007	Executive Officer of the Company		
			November 2008	Director of Rakuten USA, Inc. (current position)		
			July 2009	Managing Executive Officer of the Company		
			March 2013	Director & Managing Executive Officer of the Company		
			April 2016	Managing Executive Officer of the Company		
			April 2017	Executive Vice President of the Company		
			April 2019	Director of Rakuten Mobile Inc. (current position)		
			April 2019	Director of Rakuten Card Co., Ltd. (current position)		
			April 2019	Director of Rakuten Payment, Inc. (current position)		
			June 2019	Director of Rakuten Socio Business, Inc. (current position)		
			September 2019	Director of Rakuten Medical, Inc. (current position)		
			August 2020	Director of Rakuten Tokyu Planning Co., Ltd. (current position)		
			February 2021	Director of Rakuten Vissel Kobe, Inc. (current position)		
			February 2021	Director of Taiwan Rakuten Baseball, Inc. (current position)		
			February 2021	Director of Taiwan Rakuten Sports Entertainment, Inc. (current position)		
			March 2021	Director of Rakuten Baseball, Inc. (current position)		
			March 2021	Director, Executive Vice President of the Company (current position)		

Title and position	Name	Date of birth	Career summary		Term	Number of shares of the Company held (Thousands of shares)
Director	Ken Kutaragi	August 2, 1950	April 1975 November 1993 April 1999 June 2000 November 2003 December 2006 June 2007 June 2007 October 2009 March 2010 January 2018 April 2019 August 2020	Joined Sony Corporation Director of Sony Computer Entertainment Inc. (currently Sony Interactive Entertainment LLC.) President & Representative Director of Sony Computer Entertainment Inc. (currently Sony Interactive Entertainment LLC.) Director of Sony Corporation Director, Executive Vice President & COO of Sony Corporation Chairman, Representative Director & Group CEO of Sony Computer Entertainment Inc. (currently Sony Interactive Entertainment LLC.) Honorary Chairman of Sony Computer Entertainment Inc. Senior Technology Advisor of Sony Corporation President, Representative Director & CEO of Cyber AI Entertainment Inc. (current position) Outside Director of the Company (current position) Outside Director of GA technologies Co., Ltd (current position) Outside Director of SmartNews, Inc. (current position) Representative Director & CEO of Ascent Robotics Inc. (current position)	March 2021 to March 2022	17
Director	Sarah J. M. Whitley	August 6, 1958	September 1980 May 1986 April 2018 March 2019 May 2019 May 2019 June 2019	Joined Baillie Gifford & Co. Partner of Baillie Gifford & Co. Retired from Baillie Gifford & Co. Outside Director of the Company (current position) Trustee of Foundation Scotland (current position) Chair of Edinburgh International Festival Endowment Fund (current position) Trustee of The Royal Scottish Academy Foundation (current position)	March 2021 to March 2022	—

Title and position	Name	Date of birth	Career summary		Term	Number of shares of the Company held (Thousands of shares)
Director	Takashi Mitachi	January 21, 1957	April 1979 June 1992 October 1993 January 1999 January 2005 April 2011 April 2013 January 2016 March 2016 June 2016 March 2017 March 2017 March 2017 April 2017 June 2017 October 2017 March 2018 April 2019	Joined Japan Airlines Co., Ltd. Received MBA from Harvard Business School Joined The Boston Consulting Group Vice President of The Boston Consulting Group Japan Co-chair of The Boston Consulting Group Board Member of Japan Association for the World Food Programme Adjunct Professor of Graduate School of Management of Kyoto University Senior Partner & Managing Director of The Boston Consulting Group Outside Director of the Company (current position) Outside Director of Lotte Co., Ltd. (current position) Outside Director of DMG MORI CO., LTD. (current position) Outside Director of FiNC Inc. (currently FiNC Technologies Inc.) Outside Director of Unicharm Corporation Board Member of Ohara Museum of Art (current position) Outside Director of Tokio Marine Holdings, Inc. (current position) Senior Advisor of The Boston Consulting Group (current position) Chief Executive Director of Ronald McDonald House Charities Japan (current position) Distinguished Professor of Graduate School of Management of Kyoto University (current position)	March 2021 to March 2022	—

Title and position	Name	Date of birth	Career summary		Term	Number of shares of the Company held (Thousands of shares)
Director	Jun Murai	March 29, 1955	August 1984 Assistant at Information Processing Center of Tokyo Institute of Technology March 1987 Received Ph. D in Engineering from Keio University April 1987 Assistant at Large-scale Computer Center of the University of Tokyo (currently Information Technology Center, the University of Tokyo) April 1990 Associate Professor of Faculty of Environment and Information Studies of Keio University April 1997 Professor of Faculty of Environment and Information Studies of Keio University May 2005 Vice-President of Keio Gijuku Educational Corporation October 2009 Professor of Faculty of Environment and Information Studies of Keio University September 2011 Outside Director of BroadBand Tower, Inc. (current position) March 2012 Outside Director of the Company (current position) October 2017 Dean of the Graduate School of Media and Governance of Keio University June 2018 Outside Director of LAC Co., Ltd. (current position) November 2019 Outside Director of HAPSMobile Inc. (current position) April 2020 Professor of Keio University (current position) April 2020 Dean of the API Institute of Geo-economics Studies and API Senior Fellow of Asia Pacific Initiative (current position) October 2020 Special Advisor to the Cabinet (current position)		March 2021 to March 2022	6

Title and position	Name	Date of birth	Career summary		Term	Number of shares of the Company held (Thousands of shares)
Director	John V. Roos	February 14, 1955	October 1980 Associate of O'Melveny & Myers LLP February 1985 Associate of Wilson Sonsini Goodrich & Rosati February 1988 Partner of Wilson Sonsini Goodrich & Rosati February 2000 Managing Director of Professional Services of Wilson Sonsini Goodrich & Rosati February 2005 CEO of Wilson Sonsini Goodrich & Rosati August 2009 U.S. Ambassador to Japan September 2013 Outside Director of Salesforce.com, Inc. (current position) October 2013 CEO of The Roos Group, LLC (current position) December 2013 Global Advisory Board Member of Mitsubishi UFJ Financial Group, Inc. (current position) April 2014 Senior Advisor of Centerview Partners LLC (current position) June 2014 Outside Director of Sony Corporation May 2015 Co-Founding Partner of Geodesic Capital (current position) December 2015 Advisor of Toyota Research Institute, Inc. (current position) July 2016 Member of the Board of Directors of The Maureen and Mike Mansfield Foundation (current position) October 2018 Advisory Board Member of Stanford Center for Asian Health Research and Education (current position) March 2021 Outside Director of the Company (current position)		March 2021 to March 2022	—
Audit & Supervisory Board Member (Full-time)	Yoshiaki Nishikawa	August 30, 1958	April 1981 Joined Family Shimpan K.K. (currently ORIX Credit Corporation) January 2004 Joined Shinsei Bank, Limited October 2004 Joined Aozora Card Co., Ltd. (currently Rakuten Card Co., Ltd.) July 2012 Full-time Audit & Supervisory Board Member of Rakuten Card Co., Ltd. June 2014 Audit & Supervisory Board Member of Rakuten Securities, Inc. June 2015 Audit & Supervisory Board Member of Rakuten Life Insurance Co., Ltd. May 2016 Audit & Supervisory Board Member of Rakuten Edy Operation, Inc. (currently Rakuten Edy, Inc.) (current position) July 2018 Audit & Supervisory Board Member of Rakuten Insurance Holdings Co., Ltd. (current position) January 2019 Audit & Supervisory Board Member of Rakuten Insurance Planning Co., Ltd. March 2020 Audit & Supervisory Board Member of Rakuten Card Co., Ltd. (current position) March 2020 Audit & Supervisory Board Member of Rakuten Payment, Inc. (current position) March 2020 Audit & Supervisory Board Member (Full-time) of the Company (current position)		March 2020 to March 2024	7

Title and position	Name	Date of birth	Career summary		Term	Number of shares of the Company held (Thousands of shares)
Audit & Supervisory Board Member	Takeo Hirata	January 16, 1960	April 1982 June 1988 June 1995 July 1997 June 2000 January 2001 July 2002 April 2006 March 2007 April 2011 August 2013 July 2016 June 2017 June 2020 September 2020	Joined the Ministry of International Trade and Industry (currently Ministry of Economy, Trade, and Industry) Received a master's degree from Harvard Kennedy School Legal Examination Commissioner of General Affairs Division of Minister's Secretariat of International Trade and Industry (currently Ministry of Economy, Trade, and Industry) Financial Cooperation Office of International Trade Policy Bureau of Ministry of International Trade and Industry (currently Ministry of Economy, Trade, and Industry) Director of Petroleum Exploration and Production Division of Agency of Natural Resources and Energy of Ministry of International Trade and Industry (currently Ministry of Economy, Trade, and Industry) Director of Petroleum and Natural Gas Division of Agency for Natural Resources and Energy of Ministry of Economy, Trade and Industry General Secretary of Japan Football Association Professor of Waseda University Graduate School of Sport Sciences (current position) Outside Audit & Supervisory Board Member of the Company (current position) Dean of Waseda University of Research Institute for Strategy of Natural Resources (current position) Special Adviser to the Cabinet Chairman of the Japan Society of Sports Industry (current position) Outside Audit & Supervisory Board Member of Isetan Mitsukoshi Holdings Ltd. Outside Director of Isetan Mitsukoshi Holdings Ltd. (current position) Special Adviser to the Cabinet (current position)	March 2019 to March 2023	37

Title and position	Name	Date of birth	Career summary		Term	Number of shares of the Company held (Thousands of shares)
Audit & Supervisory Board Member (Full-time)	Masahide Hiramoto	January 30, 1954	April 1978	Joined The Nippon Credit Bank, Ltd. (currently Aozora Bank, Ltd.)	March 2018 to March 2022	—
			July 1999	General Manager of Financial Markets Planning Division of The Nippon Credit Bank, Ltd.		
			June 2000	General Manager of Shinjuku Branch of The Nippon Credit Bank, Ltd.		
			December 2001	Representative Director and President of Aozora Card Co., Ltd. (currently Rakuten Card Co., Ltd.)		
			April 2005	General Manager of Retail Marketing Division of Aozora Bank, Ltd.		
			April 2009	General Manager of Administrative Division of Marusan Securities Co., Ltd.		
			February 2010	President and Representative Director of Marusan Securities Co., Ltd.		
			March 2013	Managing Director and General Manager of Finance Division of KC Card Corporation (currently YJ Card Corporation)		
			January 2016	Corporate Advisor of KC Card Corporation		
			January 2017	Corporate Advisor of Mobile Internet Technology Co., Ltd.		
			December 2017	Retired from Mobile Internet Technology Co., Ltd.		
			March 2018	Outside Audit & Supervisory Board Member (Full-time) of the Company (current position)		
			April 2019	Audit & Supervisory Board Member of Rakuten Card Co., Ltd.		
			April 2019	Audit & Supervisory Board Member of Rakuten Payment, Inc.		
			March 2020	Audit & Supervisory Board Member of Rakuten Mobile, Inc. (current position)		

Title and position	Name	Date of birth	Career summary		Term	Number of shares of the Company held (Thousands of shares)
Audit & Supervisory Board Member	Katsuyuki Yamaguchi	September 22, 1966	April 1991	Registered with Dai-ichi Tokyo Bar Association Joined Nishimura & Partners (currently Nishimura & Asahi)	March 2020 to March 2024	70
			May 1997	Graduated from Columbia Law School (LL.M.)		
			September 1997	Served Debevoise & Plimpton LLP in New York		
			January 1998	Admitted as Attorney-at-law in New York, USA		
			May 1998	Served Debevoise & Plimpton LLP in Paris		
			February 1999	Served Simeon & Associates in Paris		
			July 1999	Reinstated at Nishimura & Partners (currently Nishimura & Asahi)		
			August 2000	Attorney and Partner of Nishimura & Partners (currently Nishimura & Asahi)		
			March 2001	Outside Audit & Supervisory Board Member of the Company (current position)		
			July 2007	Audit & Supervisory Board Member of FreeBit Co., Ltd. (current position)		
			September 2013	Outside Audit & Supervisory Board Member of BrainPad Inc. (current position)		
			June 2015	Outside Audit & Supervisory Board Member of HAKUHODO DY HOLDINGS INCORPORATED (current position)		
			April 2016	Director of Lex Mundi (current position)		
			September 2018	Managing Partner of Nishimura & Asahi NY LLP (current position)		
Total						177,006

(Notes) 1 Five Directors, Ken Kutaragi, Sarah J. M. Whitley, Takashi Mitachi, Jun Murai and John V. Roos are all Outside Directors.

2 Three Audit & Supervisory Board Members, Takeo Hirata, Masahide Hiramoto and Katsuyuki Yamaguchi are all Outside Audit & Supervisory Board Members.

2) Outside Directors and Outside Audit & Supervisory Board Members

The Company's nine-member Board of Directors currently includes five Outside Directors, and three of four Audit & Supervisory Board Members are Outside Audit & Supervisory Board Members.

Director Jun Murai is Professor of Keio University; the university shares a role in operating an international standardization body to which the Company pays membership fees. The ratio of fees in fiscal 2020 was less than 1% of the combined total amount of the cost of sales and the selling, general, and administrative expenses of the Company for the year. He is also Outside Director of BroadBand Tower, Inc. and Outside Director of LAC Co., Ltd., each of which has a business relationship with the Company. The ratio of transactions between BroadBand Tower, Inc. and LAC Co., Ltd. and the Company in fiscal 2020 was both less than 1% of the combined total amount of the cost of sales and the selling, general, and administrative expenses of the Company for the year. In addition, he is Dean of the API Institute of Geoeconomic Studies and API Senior Fellow of Asia Pacific Initiative, and the Company pays membership fees to the organization. The ratio of fees in fiscal 2020 was less than 1% of the combined total amount of the cost of sales and the selling, general, and administrative expenses of the Company for the year.

Director John V. Roos is Outside Director of Salesforce.com, Inc., which has a business relationship including provision of services with the Company. The ratio of transactions between Salesforce.com, Inc. and the Company in fiscal 2020 was less than 1% of the combined total amount of the cost of sales and the selling, general, and administrative expenses of the Company for the year.

Audit & Supervisory Board Member Takeo Hirata is Chairman of Japan Society of Sports Industry, to which the Company pays membership fees. The ratio of the amount of fees in fiscal 2020 was less than 1% of the combined total amount of cost of sales and the selling, general, and administrative expenses at the Company for the year.

Audit & Supervisory Board Member Katsuyuki Yamaguchi is Managing Partner of Nishimura & Asahi NY LLP and Outside Audit & Supervisory Board Member of BrainPad Inc., each of which has a business relationship including provision of services with the Company. The ratio of the amount of transactions between Nishimura & Asahi NY LLP and BrainPad Inc. and the Company in fiscal 2020 was both less than 1% of the combined total amount of cost of sales and the selling, general, and administrative expenses of the Company for the year.

Mr. Ken Kutaragi and Mr. Jun Murai, Outside Directors, and Mr. Takeo Hirata and Mr. Katsuyuki Yamaguchi, Outside Audit & Supervisory Board Members, respectively hold the Company's shares, and the numbers of shares held by them are as described in the respective columns of "Number of shares held" in "(2)Directors 1) List of Officers." There are no other personal, capital or business relationships or significant interests.

With the aim of ensuring a high level of transparency and strong management supervision, thereby increasing the corporate value, the Company, in selecting its Independent Directors and Independent Audit & Supervisory Board Members, determines persons who, in principle, do not fall under any of the following criteria to be independent, and Outside Directors Ken Kutaragi, Sarah J. M. Whitley, Takashi Mitachi, Jun Murai and John V. Roos and the Outside Audit & Supervisory Board Members Takeo Hirata, Masahide Hiramoto and Katsuyuki Yamaguchi are appointed to the position of Independent Director/Audit & Supervisory Board Member specified by the regulations of the Tokyo Stock Exchange. When nominating candidates for Outside Director, the Company considers whether the candidates fall under any of the following criteria.

- a. Executive of the parent company or a fellow subsidiary of the Company (*1)

- b. A party whose major client is the Company or an executive thereof or a major client (*2) of the Company or an executive thereof
- c. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as Directors or Audit & Supervisory Board Members (if the party receiving the said property is an organization such as corporation or association, parties who belong to the said organization)
- d. A party who substantially has 10% or more of the Company's total voting rights, or an executive thereof
- e. A person or party who has recently fallen under any of a) through d) above (*3)
- f. A close relative of a person who falls under any of a) through e) above, or a close relative of an executive of the Company or its subsidiary (including those who were executives until recently) (including a close relative of non-executive Director or accounting advisor of the Company or its subsidiary, in the case where Outside Audit & Supervisory Board Member is appointed as an Independent Audit & Supervisory Board Member)

*1: An executive as stipulated in Article 2, Paragraph 3, Item 6 of the Ordinance for Enforcement of the Companies Act, which includes employees in addition to Executive Directors.

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

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

There are five Outside Directors. Mr. Ken Kutaragi, has extensive knowledge of the entertainment business and technology and wide-ranging experience in business management. Ms. Sarah J. M. Whitley has wide-ranging expertise and experience as an investor. Mr. Takashi Mitachi has extensive experience and expertise mainly as a business consultant. Mr. Jun Murai has a distinguished background as an academic expert in Internet technology. And Mr. John V. Roos has extensive knowledge and experience as CEO of a leading law firm that has strengths in the area of technology and U.S. Ambassador to Japan. All Outside Directors have been appointed for their ability to provide management with advice and recommendations to enhance the Company's corporate value based on their experience and expert knowledge.

There are three Outside Audit & Supervisory Board Members. Mr. Takeo Hirata brings wide-ranging expert knowledge and experience relating primarily to sport and education. Mr. Masahide Hiramoto has extensive knowledge and experience mainly in the fields of finance and business management. Mr. Katsuyuki Yamaguchi has expertise and wide-ranging experience as an attorney primarily learned in corporate law. They have been appointed for their ability to contribute to the Company's audit systems.

Documents for meetings of the Board of Directors are forwarded in advance to the Outside Directors and Outside Audit & Supervisory Board Members, who, if necessary, can also seek advance briefings from and consultations with the units concerned. As noted above, the Outside Audit & Supervisory Board Members also actively exchange views and collaborate with the Internal Audit Department and the independent auditors.

(3) Audits

1) Audits by Audit & Supervisory Board Members

(a) Organization, Personnel and Procedures of Audits by Audit & Supervisory Board Members

Information about organization, personnel and procedures of audits by Audit & Supervisory Board Members can be found under “(1) Overview of Corporate Governance 2) Corporate Governance

(b) Corporate Organization (Audit & Supervisory Board Members and the Audit & Supervisory Board).”

(b) Activities of Audit & Supervisory Board Members and the Audit & Supervisory Board

The Company held a total of seven meetings of the Audit & Supervisory Board during the current fiscal year, and the attendance of each Audit & Supervisory Board Member is as follows.

Title and position	Name	Attendance of the meetings of the Audit & Supervisory Board
Audit & Supervisory Board Member (Full-time)	Yoshiaki Nishikawa	5 out of the 5 meetings
Outside Audit & Supervisory Board Member (Full-time)	Masahide Hiramoto	7 out of the 7 meetings
Outside Audit & Supervisory Board Member	Takeo Hirata	7 out of the 7 meetings
Outside Audit & Supervisory Board Member	Katsuyuki Yamaguchi	7 out of the 7 meetings

(Note) The difference in the total number of meetings is due to the difference in the timing of appointment.

As main matters for deliberation, the Audit & Supervisory Board appropriately discusses matters to be resolved in accordance with laws, regulations, and the Articles of Incorporation, including the election of full-time Audit & Supervisory Board Members and the Chairman of the Audit & Supervisory Board, auditing policies and audit plans, consent for the remuneration of the independent auditor, consent for the proposal for the election of Audit & Supervisory Board Members, and the determination of the reappointment of the independent auditor. The Audit & Supervisory Board also reports, as appropriate, on matters relating to the Company's financial results, internal controls, the status of business execution by Directors, the status of audits, etc., and exchanges opinions on these matters.

Audit & Supervisory Board Members attend meetings of the Board of Directors, audit the proceeding and the content of resolutions, and express opinions, as necessary. In addition, Audit & Supervisory Board Members, primarily full-time Audit & Supervisory Board Members, conduct audits on the execution of duties of Directors by attending important meetings including Management Meetings, receiving reports from Directors, etc., observing and inspecting important approval documents, and gathering information through divisions and the Group Companies, etc. Audit & Supervisory Board Members also receive reports on the implementation status and results of audits from Audit & Supervisory Board Members of the Group Companies and make efforts to enhance the effectiveness of audits of the entire Group. Part-time Audit & Supervisory Board Members receive reports on the status and results of audits from full-time Audit & Supervisory Board Members, exchange opinions on the appropriateness and the adequacy of such audits, and make efforts to enhance the effectiveness of audits.

2) Internal Audits

(a) Organization, Personnel and Procedures

Internal audits are conducted by the 32-member (including General Manager) Internal Audit Department, which is an independent unit reporting directly to the CEO. Head office divisions, business units and the Group Companies are all subject to internal auditing. Audits are implemented under plans approved by the Board of Directors with the aim of verifying the legality, appropriateness and efficiency of operations. The purpose of the internal audit process is to ensure that business operations are conducted in an appropriate manner by identifying any improvements that may be required, and by monitoring the implementation of those improvements. Audit results are reported to the CEO and the Audit & Supervisory Board Members, and particularly important audit results are reported to the Board of Directors.

(b) Mutual Cooperation between Internal Audits, Audits by Audit & Supervisory Board Members and Audits by Independent Auditors, and the Relationship with Internal Control Divisions

The Internal Audit Department shares the results, etc. of the internal audits at regular meetings with Audit & Supervisory Board Members, and conducts information sharing with independent auditors including regular exchange of opinions and the results of the internal audits. A Three-Party Audit Meeting is held as needed, and exchange of opinions among the three parties are conducted. In addition, the Internal Audit Department is also working to enhance the effectiveness of internal audits throughout the group by working closely with the other auditors of the Group Companies. Furthermore, the Internal Audit Department evaluates the design and operating status of internal controls over financial reporting based on guidelines by the Financial Services Agency and internal regulations, and shares such information with internal control divisions, as appropriate. Internal control divisions make efforts to improve the internal control system based on such information, as necessary.

3) Audits by Independent Auditors

(a) Name of the Independent Auditor

Ernst & Young ShinNihon LLC

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

(b) Continuous Audit Period

23 years

(c) Certified public accountants

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

Designated and Engagement Partner	Takeshi Saida
Designated and Engagement Partner	Isamu Ando
Designated and Engagement Partner	Kenji Kuroki

(d) Numbers of Assistants

In the current fiscal year, audits were assisted by the following assistants.

30 certified public accountants and 52 others

(e) Selection Policy, Reasons and Evaluation of Audit Firms

The Audit & Supervisory Board has established standards for properly selecting and evaluating independent auditors. Based on these standards, the Audit & Supervisory Board conducts a comprehensive review every fiscal year, taking into account matters such as the quality control system, independence, cooperation with business execution departments, audit implementation systems and audit fees of the auditing firm.

In the case where the independent auditor is believed to be applicable to any item of Article 340, Paragraph 1 of the Companies Act, the Audit & Supervisory Board shall consider the dismissal thereof and carry out such dismissal if such action is found adequate subject to the unanimous consent of all Audit & Supervisory Board Members. Also, the Audit & Supervisory Board shall decide the details of any proposal on dismissal or non-reappointment of the independent auditor to be presented to Shareholders' Meeting, if such action is deemed necessary for example, in cases where the independent auditor is found to have difficulty fulfilling their duties adequately.

In addition, the appropriateness and validity of the independent auditor is evaluated from the perspective of their quality control situation, the independence of their audit team, the appropriateness of the system to execute their duties, and their response to risk of fraud.

4) Audit Fees, etc.

(a) Audit Fees Paid to Certified Public Accountants, etc.

Item	2019		2020	
	Millions of Yen		Millions of Yen	
	Fees paid for audit certification services	Fees paid for non-audit services	Fees paid for audit certification services	Fees paid for non-audit services
Company submitting financial reports	167	21	174	3
Consolidated subsidiaries	335	76	352	23
Total	502	97	526	26

The details of the non-audit services for the Company mainly consisted of preparation of a comfort letter related to issuance of corporate bonds in the previous fiscal year and the current fiscal year. The details of the non-audit services for the consolidated subsidiaries mainly consisted of consulting services and preparation of a comfort letter related to issuance of corporate bonds in the previous fiscal year and preparation of a comfort letter related to issuance of corporate bonds in the current fiscal year.

(b) Remuneration Paid to the Same Network (Ernst & Young Group) as Certified Public Accountants, etc., excluding the abovementioned (a)

Item	2019		2020	
	Millions of Yen		Millions of Yen	
	Fees paid for audit certification services	Fees paid for non-audit services	Fees paid for audit certification services	Fees paid for non-audit services
Company submitting financial reports	-	-	-	61
Consolidated subsidiaries	185	14	177	20
Total	185	14	177	81

The details of the non-audit services for the Company mainly consisted of consulting services related to the development of group governance for the current fiscal year. The details of the non-audit services for the consolidated subsidiaries mainly consisted of tax advisory services for the previous fiscal year and the current fiscal year.

(c) Other Important Matters Pertaining to Fees

Fiscal year ended December 31, 2019

Not applicable.

Fiscal year ended December 31, 2020

Not applicable.

(d) Policy on Setting of Audit Fees

The policy regarding audit fees is appropriately determined with the consent of the Audit & Supervisory Board in accordance with laws and regulations, based on relevant factors, including the size of the Company, the characteristics of its business activities, and the number of days required for audits.

(e) Reasons the Audit & Supervisory Board Agreed to the Remuneration of Independent Auditors

The Audit & Supervisory Board has agreed to the amount of remuneration, etc. for the independent auditor as a result of verifying and evaluating the details of the auditing plan for the current fiscal year, including number of days required for audits and placement of personnel, as well as the audit results of the previous year, which were explained by the independent auditor, and scrutinizing the appropriateness of the audit performance of the independent auditor, as well as the basis for calculating the estimate used as a premise for the remuneration.

(4) Remuneration for Directors and Audit & Supervisory Board Members

1) Total Amounts of Fees, etc., for Each Category of Officers of the Company Submitting Financial Reports, Total Amount of Each Type of Remuneration Paid, and Number of Recipients

Category of officer	Total amount of fees, etc. (Millions of Yen)	Total amount of each type of remuneration (Millions of Yen)			Number of recipients
		Basic fees	Share options	Bonuses	
Directors (excluding Outside Directors)	291	142	116	33	3
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	13	12	1	-	1
Outside Directors and Audit & Supervisory Board Members	128	123	5	-	8

(Notes) 1 The abovementioned number of persons paid and the amount paid include one Outside Audit & Supervisory Board Member who retired at the conclusion of the 23rd Annual General Shareholders' Meeting held on March 27, 2020.

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

3 Total remuneration for Audit & Supervisory Board Members is within the upper limit of ¥120 million as stipulated in a resolution of the 10th Annual General Shareholders' Meeting held on March 29, 2007.

2) Consolidated Total Amount of Fees, etc., for Directors and Audit & Supervisory Board Members of the Company Submitting Financial Reports

Name and category of officer	Total amount of fees, etc. (Millions of Yen)	Category of company	Total amount of each type of remuneration (Millions of Yen)		
			Basic fees	Share options	Bonuses
Masayuki Hosaka (Vice Chairman and Representative Director)	200	The filing company	115	52	33

3) Policies Concerning Amounts of Remuneration for Directors and Audit & Supervisory Board Members, and the Adoption of Methods for Calculating Those Amounts

(a) Basic Policies

The Company's officer remuneration is determined in accordance with the following basic policies.

For Executive Directors, the Company shall set a level of remuneration that can secure and maintain globally competitive, excellent human resources, and adopt a remuneration system in which share options linked to its business performance account for a high proportion, in order to promote sustainable growth by improving medium- to long-term corporate value and achieving management goals.

For non-executive Directors, the Company shall set a level of remuneration that can secure and maintain excellent human resources who will support management with global expertise.

(b) Remuneration Structure

Remuneration of Executive Directors of the Company is composed of:

- a. Basic remuneration (fixed)
- b. Performance-linked bonuses as short-term incentive remuneration
- c. Share options linked to share prices as medium- to long-term incentive remuneration

With regard to composition ratio, the basic remuneration ratio is set based on each position and role. It is designed to increase the ratio of variable remuneration, especially share options linked to medium- to long-term business performance.

Directors and Outside Directors who are independent from business execution are only paid a fixed monthly amount.

(c) Indicators and Method of Calculation

Multiple KPIs for the contribution and expansion of the Rakuten Ecosystem have been selected as indicators related to performance-linked remuneration, and set so that they can be linked to growth and profitability.

The method of calculation reflects year-on-year changes in the indicators, achievement of targets, and results of individual evaluations.

The amount paid is determined based on the degree of achievement, in consideration of an amount requested by the individual.

(d) Remuneration Determination Process

The Board of Directors explains the policies and decision-making process regarding remuneration for Directors of the Company to the Independent Outside Directors, and obtains appropriate advice.

The amount of individual remuneration for Directors is determined by the Representative Director, Chairman, President & CEO, who is delegated this authority by the Board of Directors, within the remuneration limit determined at the General Shareholders' Meeting and in accordance with the remuneration policies.

(5) Status of Securities Held by the Company

1) Criteria and Approach for Classification of Investment Securities

With regard to the classification of investment securities, the Company classifies them as "shares held purely for investment purposes" if the sole purpose is to make profit from changes in the value of the shares or dividends on shares, and classifies them as "shares held for other reasons than pure investment purpose" if the purpose is anything else. In addition, among "shares held for other reasons than pure investment purpose," the Company considers strategically held shares as shares that hinder the improvement of capital efficiency through continued long-term holding without rational reasons based on trading practices. Accordingly, the Company has a policy of not holding such shares in principle.

2) Shares Held for Other Reasons than Pure Investment Purpose

- a. Method for verifying the holding policies and rationality of holding, and the details of verification by the Board of Directors regarding the suitability of holding individual shares

With regard to shares held for other reasons than pure investment purpose, the Company comprehensively examines the benefits, capital costs and risks associated with holding them from a medium- to long-term perspective, and holds the shares if it has been determined that it will contribute to the enhancement of the Company's shareholder value. In accordance with this policy, the Investment Committee, which is comprised of members including Outside Directors, deliberates in advance whether or not to proceed with each project, then reports the results of the deliberations to the Board of Directors. In the event that ROI is determined to be maximized by sales, etc. or for shares for which the significance of holding is not necessarily sufficient, the Company will review and replace the portfolio by selling the shares as appropriate.

b. Number of share names and balance sheet amount

	Number of share names	Total balance sheet amount (Millions of Yen)
Unlisted shares	8	250
Shares other than unlisted shares	3	791

(Note) Amounts are stated in accordance with JGAAP.

(Share names for which the number of shares has increased in the current fiscal year)

Not applicable.

(Share names for which the number of shares has decreased in the current fiscal year)

	Number of share names	Total sale price for the decrease in the number of shares (Millions of Yen)
Unlisted shares	—	—
Shares other than unlisted shares	1	45

c. Information on the number of shares, amount recorded in balance sheet, etc. for each share name of special investment securities and deemed held shares

Special Investment Securities

Special Investment Securities						
		Current fiscal year	Previous fiscal year			
Share name		Number of shares (shares)	Number of shares (shares)	Purpose of holding, quantitative effect of holding and reasons for the increase in the number of shares		Ownership of the Company's shares
		Amount recorded in balance sheet (Millions of Yen)	Amount recorded in balance sheet (Millions of Yen)			
KANTSU Co. Ltd		225,000	225,000	(Purpose of holding)	To enhance business relationship	No
		559	148			
Brangista Inc.		417,600	479,200	(Purpose of holding)	To enhance business relationship	No
		189	380			
Alpen Co., Ltd.		18,000	18,000	(Purpose of holding)	To enhance business relationship	No
		42	31			

(Note) Amounts are stated in accordance with JGAAP.

Deemed Held Shares

Not applicable.

3) Shares Held for Pure Investment Purpose

Classification	Current fiscal year		Previous fiscal year	
	Number of share names	Total balance sheet amount (Millions of Yen)	Number of share names	Total balance sheet amount (Millions of Yen)
Unlisted shares	—	—	—	—
Shares other than unlisted shares	2	159,544	1	1,687

Classification	Current fiscal year		
	Total dividend income (Millions of Yen)	Total amount of gain (loss) on sale (Millions of Yen)	Total valuation gain (loss) (Millions of Yen)
Unlisted shares	—	—	—
Shares other than unlisted shares	—	1,181	(86,303)

(Note) Amounts are stated in accordance with JGAAP.

4) Investment Securities for which the Purpose of Holding has been Changed from Pure Investment Purpose to Other Reasons during the Current Fiscal Year

Not applicable.

5) Investment Securities for which the Purpose of Holding has been Changed from Other Reasons to Pure Investment Purpose during the Current Fiscal Year

Not applicable

V. Financial Information

1. Basis of Preparation of Consolidated Financial Statements

- (1) The Consolidated Financial Statements of the Company are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS"), as issued by the International Accounting Standards Board, as the Company satisfies the requirements of a "specified company" prescribed in Article 1-2 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976; hereinafter referred to as the "Rules on Consolidated Financial Statements") as provided in Article 93.
- (2) The non-Consolidated Financial Statements of the Company are prepared in accordance with the Ordinance on Terminology, Forms, and Preparation Methods of Financial Statements (Ordinance of the Ministry of Finance No. 59 of 1963; hereinafter referred to as the "Rules on Financial Statements").

In addition, the Company is treated as a special financial statement-submitting company and prepares non-Consolidated Financial Statements based on the provision of Article 127 of the Rules on Financial Statements.

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

The Company has undertaken specific measures to ensure the appropriateness of its Consolidated Financial Statements, the details of which are as follows.

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

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

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

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

1. Consolidated Financial Statements

(1) Consolidated Financial Statements for the year ended December 31, 2020

1) Consolidated Statements of Financial Position

(Millions of Yen)

	Note	December 31, 2019	December 31, 2020
Assets			
Cash and cash equivalents	5	¥1,478,557	¥3,021,306
Accounts receivable — trade	6, 15	222,485	243,886
Financial assets for securities business	7, 15	1,976,009	2,673,229
Loans for credit card business	8, 15	1,828,216	2,033,013
Investment securities for banking business	9, 15	272,711	266,227
Loans for banking business	10, 15	1,049,993	1,436,513
Investment securities for insurance business	11, 15	287,200	283,969
Derivative assets	12	28,050	32,644
Investment securities	13	163,259	275,236
Other financial assets	14, 15	390,234	492,686
Investments in associates and joint ventures	16	177,199	58,072
Property, plant and equipment	17	376,424	684,110
Intangible assets	18	609,450	639,589
Deferred tax assets	26	80,153	126,203
Other assets		225,757	257,755
Total assets		9,165,697	12,524,438
Liabilities			
Accounts payable — trade		329,483	337,427
Deposits for banking business	19	3,160,748	4,716,162
Financial liabilities for securities business	20	1,860,645	2,587,227
Derivative liabilities	12	10,172	78,318
Bonds and borrowings	21	1,727,096	2,487,457
Other financial liabilities	22	820,440	1,131,505
Income taxes payable		12,952	8,700
Provisions	23	109,845	162,579
Insurance business policy reserves	24	318,090	285,336
Employee retirement benefit liabilities	25	11,374	19,272
Deferred tax liabilities	26	2,049	1,920
Other liabilities		65,603	79,521
Total liabilities		8,428,497	11,895,424
Equity			
Equity attributable to owners of the Company			
Common stock	27	205,924	205,924
Capital surplus	27	224,379	227,844
Retained earnings	27	413,603	290,449
Treasury stock	27	(92,305)	(84,941)
Other components of equity		(15,929)	(30,538)
Total equity attributable to owners of the Company		735,672	608,738
Non-controlling interests		1,528	20,276
Total equity		737,200	629,014
Total liabilities and equity		9,165,697	12,524,438

2) Consolidated Statements of Income

(Millions of Yen)

	Note	Year ended December 31, 2019	Year ended December 31, 2020
Continuing operations			
Revenue	28	¥1,263,932	¥1,455,538
Operating expenses	29	1,266,902	1,579,630
Other income	30	86,901	54,483
Other expenses	30	11,186	24,240
Operating income (loss)		72,745	(93,849)
Financial income	31	3,642	60,150
Financial expenses	31	9,027	79,607
Share of losses of associates and joint ventures, net	16	(111,918)	(37,710)
Loss before income tax		(44,558)	(151,016)
Income tax benefit	26	(11,490)	(35,178)
Net loss		(33,068)	(115,838)
Net loss attributable to:			
Owners of the Company		(31,888)	(114,199)
Non-controlling interests		(1,180)	(1,639)
Net loss		(33,068)	(115,838)

(Yen)

Losses per share attributable to owners of the Company:			
Basic	32	¥(23.55)	¥(84.00)
Diluted	32	(23.55)	(84.00)

3) Consolidated Statements of Comprehensive Income

(Millions of Yen)

	Note	Year ended December 31, 2019	Year ended December 31, 2020
Net loss		¥(33,068)	¥(115,838)
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	39	16,505	(18,898)
Income tax effect of gains or losses on equity instruments measured at fair value through other comprehensive income	26,39	(4,061)	4,680
Remeasurement of insurance business policy reserves based on current market interest rates	24	(4,582)	2,684
Income tax effect of remeasurement of insurance business policy reserves based on current market interest rates	24,26	1,283	(752)
Remeasurement of defined benefit plans	25	(1,257)	(1,434)
Income tax effect of remeasurement of defined benefit plans	25,26	376	439
Other comprehensive income of investments in associates and joint ventures	16	25	(57)
Total items that will not be reclassified to net income (loss)		8,289	(13,338)
Items that may be reclassified to net income:			
Foreign currency translation adjustments		(11,211)	(18,415)
Foreign currency translation adjustments reclassified from other comprehensive income to net income		154	7,578
Corporate income tax on foreign currency translation adjustments	26	1,166	(1,166)
Gains on debt instruments measured at fair value through other comprehensive income	39	1,560	1,616
Allowances for doubtful debts on debt instruments measured at fair value through other comprehensive income	39	(123)	34
Losses on debt instruments measured at fair value through other comprehensive income reclassified from other comprehensive income to net income	39	(1,420)	(254)
Income tax effect of gains or losses on debt instruments measured at fair value through other comprehensive income	26,39	7	(403)
Losses on cash flow hedges recognized in other comprehensive income	34	(1,652)	(766)
Income tax effect of gains on cash flow hedges recognized in other	26, 34	431	239

(Millions of Yen)

	Note	Year ended December 31, 2019	Year ended December 31, 2020
comprehensive income			
Gains on cash flow hedges reclassified from other comprehensive income to net income	34	649	3,893
Income tax effect of gains or losses on cash flow hedges reclassified from other comprehensive income to net income	26, 34	(136)	(1,208)
Other comprehensive income of investments in associates and joint ventures	16	(7,464)	(2,015)
Reclassified from other comprehensive income to net income for the investments in associates and joint ventures	16	—	7,642
Total items that will be reclassified to net income		(18,039)	(3,225)
Other comprehensive income, net of tax		(9,750)	(16,563)
Comprehensive income		(42,818)	(132,401)
Comprehensive income attributable to:			
Owners of the Company		(41,643)	(131,130)
Non-controlling interests		(1,175)	(1,271)
Comprehensive income		(42,818)	(132,401)

4) Consolidated Statements of Changes in Equity

(Millions of Yen)

Note	Common stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity						Total equity attributable to owners of the Company	Non-controlling interests	Total equity
					Foreign currency translation adjustments	Financial instruments measured at fair value through other comprehensive income	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			
As of January 1, 2019	¥205,924	¥218,856	¥424,568	¥(97,300)	¥1,462	¥25,781	¥(511)	¥(4,260)	¥(47)	¥22,425	¥774,473	¥1,734	¥776,207
Cumulative impact from change in accounting policies	—	—	(2,087)	—	—	—	—	—	—	—	(2,087)	—	(2,087)
Adjusted balance reflecting change in accounting policy	205,924	218,856	422,481	(97,300)	1,462	25,781	(511)	(4,260)	(47)	22,425	772,386	1,734	774,120
Comprehensive income													
Net loss	—	—	(31,888)	—	—	—	—	—	—	—	(31,888)	(1,180)	(33,068)
Other comprehensive income, net of tax	—	—	—	—	(17,354)	12,487	(708)	(3,299)	(881)	(9,755)	(9,755)	5	(9,750)
Total comprehensive income	—	—	(31,888)	—	(17,354)	12,487	(708)	(3,299)	(881)	(9,755)	(41,643)	(1,175)	(42,818)
Transactions with owners													
Contributions by and distributions to owners													
Cash dividends paid	27, 37	—	(6,084)	—	—	—	—	—	—	—	(6,084)	—	(6,084)
Reclassified from other components of equity to retained earnings	38	—	28,599	—	—	(28,599)	—	—	—	(28,599)	—	—	—
Disposal of treasury stock with the exercise of share options	27	—	(4,927)	4,995	—	—	—	—	—	—	68	—	68
Issuance of share acquisition rights		—	10,584	—	—	—	—	—	—	—	10,584	—	10,584
Forfeiture of share acquisition rights		—	(93)	93	—	—	—	—	—	—	—	—	—
Others		—	153	—	—	—	—	—	—	—	153	—	153
Total contributions by and distributions to owners		—	5,564	4,995	—	(28,599)	—	—	—	(28,599)	4,721	—	4,721
Changes in ownership interests in subsidiaries													
Issuance of common stock		—	—	—	—	—	—	—	—	—	—	1,226	1,226
Acquisitions and disposals of non-controlling interests		—	—	—	—	—	—	—	—	—	—	—	—
Others		—	(41)	249	—	—	—	—	—	—	208	(257)	(49)
Total changes in ownership interests in subsidiaries		—	(41)	249	—	—	—	—	—	—	208	969	1,177
Total transactions with owners		—	5,523	4,995	—	(28,599)	—	—	—	(28,599)	4,929	969	5,898
As of December 31, 2019	¥205,924	¥224,379	¥413,603	¥(92,305)	¥(15,892)	¥9,669	¥(1,219)	¥(7,559)	¥(928)	¥(15,929)	¥735,672	¥1,528	¥737,200

	Note	Common stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity						Total equity attributable to owners of the Company	Non-controlling interests	Total equity
						Foreign currency translation adjustments	Financial instruments measured at fair value through other comprehensive income	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			
As of January 1, 2020		¥205,924	¥224,379	¥413,603	¥(92,305)	¥(15,892)	¥9,669	¥(1,219)	¥(7,559)	¥(928)	¥(15,929)	¥735,672	¥1,528	¥737,200
Comprehensive income														
Net loss		—	—	(114,199)	—	—	—	—	—	—	—	(114,199)	(1,639)	(115,838)
Other comprehensive income, net of tax		—	—	—	—	(6,806)	(13,221)	2,158	1,933	(995)	(16,931)	(16,931)	368	(16,563)
Total comprehensive income		—	—	(114,199)	—	(6,806)	(13,221)	2,158	1,933	(995)	(16,931)	(131,130)	(1,271)	(132,401)
Transactions with owners														
Contributions by and distributions to owners														
Cash dividends paid	27, 37	—	—	(6,103)	—	—	—	—	—	—	—	(6,103)	—	(6,103)
Reclassified from other components of equity to retained earnings	38	—	—	(2,322)	—	—	2,322	—	—	—	2,322	—	—	—
Disposal of treasury stock with the exercise of share options	27	—	(7,364)	—	7,364	—	—	—	—	—	—	0	—	0
Issuance of share acquisition rights		—	11,014	—	—	—	—	—	—	—	—	11,014	—	11,014
Forfeiture of share acquisition rights		—	(187)	187	—	—	—	—	—	—	—	—	—	—
Others		—	—	(717)	—	—	—	—	—	—	—	(717)	—	(717)
Total contributions by and distributions to owners		—	3,463	(8,955)	7,364	—	2,322	—	—	—	2,322	4,194	—	4,194
Changes in ownership interests in subsidiaries														
Issuance of common stock		—	—	—	—	—	—	—	—	—	—	—	309	309
Acquisitions and disposals of non-controlling interests		—	—	—	—	—	—	—	—	—	—	—	18,840	18,840
Others		—	2	—	—	—	—	—	—	—	—	2	870	872
Total changes in ownership interests in subsidiaries		—	2	—	—	—	—	—	—	—	—	2	20,019	20,021
Total transactions with owners		—	3,465	(8,955)	7,364	—	2,322	—	—	—	2,322	4,196	20,019	24,215
As of December 31, 2020		¥205,924	¥227,844	¥290,449	¥(84,941)	¥(22,698)	¥(1,230)	¥939	¥(5,626)	¥(1,923)	¥(30,538)	¥608,738	¥20,276	¥629,014

5) Consolidated Statements of Cash Flows

(Millions of Yen)

	Note	Year ended December 31, 2019	Year ended December 31, 2020
Cash flows from operating activities			
Loss before income tax		¥(44,558)	¥(151,016)
Depreciation and amortization	29	106,370	151,506
Impairment loss	17, 18	4,641	7,591
Other loss (income)		55,297	(19,413)
Decrease (Increase) in operating receivables		(47,356)	(33,425)
Decrease (Increase) in loans for credit card business		(364,138)	(204,590)
Increase in deposits for banking business		805,850	1,555,229
Net decrease (increase) in call loans for banking business		(15,000)	15,000
Decrease (Increase) in loans for banking business		(158,068)	(386,520)
Increase in operating payables		73,658	20,954
Decrease (Increase) in financial assets for securities business		(186,289)	(697,382)
Increase (Decrease) in financial liabilities for securities business		107,535	726,799
Others		12,290	81,588
Income tax paid		(31,912)	(24,930)
Net cash flows from operating activities		318,320	1,041,391
Cash flows from investing activities			
Payments in time deposits		(9,708)	(9,095)
Proceeds from time deposits		10,929	10,008
Purchases of property, plant and equipment		(108,065)	(279,278)
Purchases of intangible assets		(99,173)	(105,796)
Acquisitions of subsidiaries		(12,332)	(22,062)
Proceeds from sales of subsidiaries	30	—	62,599
Acquisitions of investments in associates and joint ventures		(9,273)	(15,119)
Purchases of investment securities for banking business		(383,885)	(467,460)
Proceeds from sales and redemption of investment securities for banking business		316,698	473,499
Purchases of investment securities for insurance business		(150,338)	(75,676)
Proceeds from sales and redemption of investment securities for insurance business		161,501	60,327
Purchases of investment securities		(26,057)	(7,436)
Proceeds from sales and redemption of investment securities		53,740	38,036
Proceeds from sales and redemption of other financial assets		831	14,081
Other payments		(42,077)	(15,314)

(Millions of Yen)

	Note	Year ended December 31, 2019	Year ended December 31, 2020
Other proceeds		10,919	35,339
Net cash flows from investing activities		(286,290)	(303,347)
Cash flows from financing activities			
Net increase (decrease) in short-term debts	21	107,701	411,279
Net increase in commercial papers	21	18,500	135,500
Proceeds from long-term debts	21	490,805	424,590
Repayments of long-term debts	21	(324,166)	(324,141)
Proceeds from issuance of bonds	21	215,516	148,900
Redemptions of bonds	21	(20,000)	(40,000)
Proceeds from sale of shares by forward contract	22	—	75,348
Repayments of lease liabilities	42	(17,577)	(34,476)
Cash dividends paid		(6,113)	(6,103)
Others		(6,326)	17,211
Net cash flows from financing activities		458,340	808,108
Effect of change in exchange rates on cash and cash equivalents		(2,055)	(3,403)
Net increase in cash and cash equivalents		488,315	1,542,749
Cash and cash equivalents at the beginning of the year	5	990,242	1,478,557
Cash and cash equivalents at the end of the year	5	1,478,557	3,021,306

[Notes to the Consolidated Financial Statements]

1. General Information

(1) Reporting Entity

Rakuten, Inc. (hereinafter referred to as the “Company”) is a company resident in Japan. As a global innovation company engaged in the three main activities of Internet Services, FinTech and Mobile, the Company and its subsidiaries (hereinafter referred to as the “Group Companies”) are organized into three reportable segments: “Internet Services”, “FinTech” and “Mobile.”

Each of these segments is also an operating segment and has available financial information, which is separate from the Group Companies’ business units and is individually subject to review by the Board of Directors on a regular basis, for purposes of making decisions about allocation of management resources and evaluating business results.

The “Internet Services” segment comprises businesses providing various E-commerce (electronic commerce) sites including an Internet shopping mall Rakuten Ichiba, online cashback sites, travel booking sites and portal sites, advertising businesses on abovementioned sites, and management businesses of professional sports teams.

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 businesses engaged in communication and messaging services, as well as businesses providing digital content sites.

The Company is changing its trade name from Rakuten, Inc. to Rakuten Group, Inc. on April 1, 2021. The change in trade name has been approved at the 24th Annual General Shareholders’ Meeting on March 30, 2021.

(2) Basis of Presentation

The Group Companies’ Consolidated Financial Statements are prepared in accordance with the International Financial Reporting Standards (hereinafter referred to as “IFRS”) issued by the International Accounting Standards Board. As it meets the requirements set out under Article 1-2 of the Rules on Terminology, Forms and Compilation Methods of Consolidated Financial Statements, under which the Company qualifies for treatment as a “Specified Company under the Designated International Accounting Standards,” the provision of Article 93 of the said rules is applied.

The Consolidated Financial Statements were approved by the Meeting of the Board of Directors on March 30, 2021.

(3) Significant Changes in the Scope of Consolidation and the Scope of Equity Method Application

Rakuten International Commercial Bank Co., Ltd., which was jointly established with a non-group company, IBF Financial Holdings Co., Ltd., during the second quarter ended June 30, 2020, is included in the scope of consolidation. In addition, OverDrive Holdings, Inc. was disposed of due to the disposal of all of its shares.

Hiroshi Mikitani, Chairman and CEO of the Company, resigned as a director of Lyft, Inc. (hereinafter “Lyft”) on August 31, 2020. Mikitani had served as a director of Lyft since the Company acquired an equity stake in Lyft in 2015. He decided to resign to focus on management of the Rakuten Group amid an uncertain external environment stemming from the COVID-19 pandemic. Lyft shares held by the Company have been accounted for using the equity method since the

second quarter ended June 30, 2019. This was mainly because it was possible for the Company to exercise significant influence over Lyft by proactive participation in the decision making process through its shareholding and as a member of the Board of Directors of Lyft. As the Company is no longer able to exert such significant influence following the retirement of the above director, the Company now classifies its shares in Lyft as financial assets measured at fair value through profit or loss, effective from the third quarter ended September 30, 2020.

(4) Functional Currency and Presentation Currency

Items included in the financial statements of each subsidiary and associate are measured using the currency of the primary jurisdiction in which they conduct their business operations ("functional currencies"). The Consolidated Financial Statements are presented in Japanese yen, the functional currency of the Company and the presentation currency of the Group. The amounts in the Consolidated Financial Statements are presented in millions of yen rounded to the nearest million.

(5) Basis of Measurement

The Consolidated Financial Statements have been prepared on an historical cost basis, except for those financial instruments, etc. that have been based on fair value.

(6) Use of Estimates and Judgments

The preparation of the Consolidated Financial Statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management of the Group Companies to exercise judgment in the process of applying the accounting policies of the Group Companies. The areas involving a higher degree of judgment or complexity, areas where assumptions and estimates are significant to the Consolidated Financial Statements, or information in respect of uncertainties of assumptions and estimates which have a significant risk of causing material adjustment in the next year are disclosed in "Note 3. Significant Accounting Estimates and Judgments" and other notes.

(7) Early Adoption of Standards and Interpretations

Not applicable.

(8) New Standards and Interpretations Not Yet Applied

As of December 31, 2020, the Group Companies have not applied the following standards, interpretations and amendments to standards or interpretations issued before the approval date of the Consolidated Financial Statements but which are not yet effective.

	IFRS	Mandatory adoption (effective date)	Adoption by the Group Companies (reporting period ended)	Description
IFRS 17	Insurance contracts	January 1, 2023	Not determined	Revision of accounting of insurance contracts

The impact of the application of IFRS 17 “Insurance contracts” on the Group Companies’ Consolidated Financial Statements is currently being reviewed and cannot be estimated at the present time.

2. Accounting Policies

The Group Companies consistently apply the accounting policies to the periods presented in the Consolidated Financial Statements.

(1) Basis of Consolidation

1) Subsidiaries

A subsidiary is an entity (including structured entities) that is controlled by the Group Companies. The Group Companies control an entity when they are exposed, or have rights, to variable returns from involvement with the entity and have the ability to affect those returns through power over that entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group Companies control another entity or not. Between the date of obtaining control and the date of losing control, the Consolidated Financial Statements of the Group Companies include the financial statements of each controlled subsidiary.

Changes in the ownership interest in a subsidiary are accounted for as equity transactions if the Group Companies retain control over that subsidiary. Any difference between the adjustment to the non-controlling interests and fair value of the consideration transferred or received is recognized directly in equity attributable to owners of the Company.

Intercompany balances and transactions are eliminated in consolidation. Unrealized gains or losses included in assets resulting from transactions within the Group Companies are also eliminated. The financial statements of each subsidiary are adjusted, if necessary, to comply with the accounting policies of the Group Companies.

2) Associates and Joint Arrangements

Associates are entities over which the Group Companies have significant influence but do not have control over the financial and operating policies of such entities. Significant influence is presumed to exist when the Group Companies hold 20% to 50% of the voting power of another entity. The factors considered in determining whether or not the Group Companies have significant influence include representation on the board of directors. The existence of these factors can lead to the determination that the Group Companies have significant influence, even though the investment of the Group Companies is less than 20% of the voting power.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the activities that have significant influence on variable returns from the arrangements require the unanimous consent of the parties sharing control. Investments in a joint arrangement are classified as a joint operation or a joint venture depending upon the rights and

obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for using the equity method, except for such cases as where they are classified as assets held for sale, etc. in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” and accordingly accounted for in accordance with IFRS 5. The Group Companies’ share of the operating results of associates and joint ventures is adjusted to conform with the accounting policies of the Group Companies, and is reported in the Consolidated Statements of Income as “Share of income (loss) of associates and joint ventures.” The Group Companies’ share of investees’ gains or losses resulting from intercompany transactions is eliminated on consolidation. Under the equity method of accounting, the investment of the Group Companies in associates and joint ventures are initially recorded at cost, and subsequently increased (or decreased) to reflect both the Group Companies’ share of the post-acquisition net income or loss and other movements included directly in equity of the associates and joint ventures.

Goodwill arising on the acquisition of associates or joint ventures is included in the carrying value of the investment, and the Group Companies carry out any impairment testing on the entire interest in an associate. The Group Companies assess whether there is any objective evidence that the investments in associates and joint ventures are impaired at each reporting date. If there is any objective evidence of impairment, an impairment test is performed by comparing the investment’s recoverable amount, which is the higher of its value in use or fair value less costs of disposal, to its carrying amount. An impairment loss recognized in prior periods is only reversed if there has been a change in the estimates used to determine the investment’s recoverable amount since the last impairment loss was recognized. The impairment loss is reversed to the extent that the carrying amount of the investment equals the recoverable amount.

For investments in joint operations, the Group Companies recognize their share of the revenues, expenses, assets and liabilities of each joint operation.

Investments in some affiliate companies have been measured at fair value through profit or loss in accordance with the provisions applied to associates and joint ventures in paragraph 18 of IAS 28.

(2) Business Combinations

The Group Companies use the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is fair value of the assets transferred, the liabilities incurred by the Group Companies to the former owners of the acquiree and the equity interests issued by the Group Companies. The consideration transferred includes fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs incurred by the Group Companies, such as agent commissions, legal fees, due diligence costs, other professional fees and other consulting costs, are recognized as expenses in the period in which they are incurred. Further, the Group Companies recognize any non-controlling interest in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the acquiree’s net assets in the event of liquidation, on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest’s proportionate share of the recognized amounts of acquiree’s identifiable net assets.

The acquisition date is the date when control is transferred to the acquirer. Judgments may

be required in determining the acquisition date and whether control is transferred from one party to another. In accordance with the recognition principles of IFRS 3 “Business Combinations,” the identifiable assets, liabilities and contingent liabilities of the acquiree are based on their fair values at the acquisition date except for the following.

- Deferred tax assets or liabilities and liabilities (or assets) related to employee benefit arrangements are recognized and measured in accordance with IAS 12 “Income taxes” and IAS 19 “Employee benefits,” respectively; and liabilities related to share-based payments are recognized and measured in accordance with IFRS 2 “Share-based Payment;” and
- Non-current assets and operations classified as held for sale are measured in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations.”

Goodwill is initially measured as the excess of the aggregate of the fair value of consideration transferred, the fair value of non-controlling interest, and the fair value of any pre-existing interest in the acquiree at the acquisition date over fair value of the net identifiable assets acquired and liabilities assumed, measured, in principle, at fair value. If the aggregate of the consideration transferred, fair value of non-controlling interest in the acquiree, and fair value of pre-existing interest in the acquiree at the acquisition date is lower than the aggregate fair values of the net assets of the subsidiary acquired, the difference is recognized in the Consolidated Statements of Income as a gain from bargain purchase.

If the initial accounting for business combinations is incomplete by the end of the reporting period in which the business combinations occur, the Group Companies report provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are retrospectively adjusted during the measurement period to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized as of that date. Additional assets or liabilities are recognized if new information, if known, would have resulted in the additional recognition of assets or liabilities. The measurement period does not exceed one year.

Goodwill relating to acquisitions prior to the date of transition to IFRSs is reported in accordance with accounting principles generally accepted in Japan (JGAAP), the accounting framework under which the Group prepared its consolidated financial statements prior to its adoption of IFRS.

(3) Foreign Currencies

1) Foreign Currency Transactions

Foreign currency transactions are translated into the functional currencies of individual foreign subsidiaries using the spot exchange rate at the date of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currencies using the spot exchange rate at the end of each reporting period. Non-monetary assets and liabilities based on fair value that are denominated in foreign currencies are retranslated using the spot exchange rates at the date when fair value was determined.

Exchange differences arising from settlement and translation of foreign currency denominated monetary assets and liabilities at the period end closing rate are recognized in the Consolidated Statements of Income. However, when profits or losses related to non-monetary items are recognized in comprehensive income, any exchange differences are also recognized in other comprehensive income.

2) Foreign Operations

Assets and liabilities of foreign operations (including goodwill and fair value adjustments arising on the acquisition of foreign operations) are translated into Japanese yen using the spot exchange rate at the reporting date. Income and expenses are translated into Japanese yen at the average exchange rates for the period.

Exchange differences arising from translation of financial statements of foreign operations are recognized in other comprehensive income.

These differences are presented as “Foreign currency translation adjustments” in other components of equity. On disposal of the entire interest in a foreign operation, and on the partial disposal of an interest which results in the loss of control, significant influence or joint control, the cumulative amount of the exchange differences is reclassified to income as part of gains or losses on disposal.

(4) Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and insignificant risk of changes in value. However, short-term highly liquid investments in the banking business are excluded.

(5) Financial Instruments

1) Non-derivative Financial Assets

The Group Companies recognize trade and other receivables at the time they arise. All other financial assets are recognized at the contract dates when the Group Companies become a party to the contractual provisions of the instrument.

The following is a summary of the classification and measurement model of non-derivative financial assets.

Financial Assets Measured at Amortized Cost

Financial assets that meet the following conditions are classified as financial assets that are subsequently measured at amortized cost:

- The asset is held within the Group Companies’ business model with the objective of holding assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on a specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are initially based on fair value plus directly attributable transaction costs. After initial recognition, the carrying amount of the financial assets measured at amortized cost is subsequently measured based on the effective interest method.

Debt instruments Measured at Fair Value Through Other Comprehensive Income (“FVTOCI”)

Financial assets that meet both of the following conditions are classified as debt instruments that are subsequently measured at FVTOCI.

- The financial instruments are held for the purpose of both the collection of contractual cash flows and eventual sale of cash flows, under the business model of Rakuten Group.
- The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments measured at FVTOCI are initially based on fair value plus directly attributable transaction costs. After initial recognition, subsequent changes are recognized as other

comprehensive income. At the time of derecognition, the accumulated amount recognized as other comprehensive income is reclassified to net income.

Financial Instruments Measured at Fair Value Through Profit or Loss (“FVTPL”)

Financial assets other than equity instruments that do not meet the conditions for measurement at amortized cost and designation as FVTOCI are based on fair value with gains or losses on remeasurement recognized in the Consolidated Statements of Income. Those financial assets include financial assets held for trading.

Equity investments are measured at fair value with gains or losses on remeasurement recognized in the Consolidated Statements of Income unless the Group Companies make an irrevocable election to designate the equity investments as at FVTOCI on initial recognition.

Financial assets measured at FVTPL are initially measured at fair value and transaction costs are recognized in the Consolidated Statements of Income when they are incurred.

Equity Instruments Measured at FVTOCI

On initial recognition, the Group Companies may make an irrevocable election to designate investments in equity instruments as at FVTOCI. The election is made only for equity investments other than those held for trading.

Equity instruments measured at FVTOCI are initially measured/recognized at their fair value (including directly attributable transaction costs). Subsequently, they are measured at fair value at each reporting date, and gains and losses arising from changes in fair value are recognized in other comprehensive income and presented as “Gains (losses) on equity instruments at fair value through other comprehensive income” in other components of equity.

However, dividends on equity instruments measured at FVTOCI are recognized in the Consolidated Statements of Income as “Revenue” or “Financial income.”

Impairment of Financial Assets Measured at Amortized Cost and Debt Instruments Measured at FVTOCI

With respect to financial assets measured at amortized cost, and debt instruments based on fair value through other comprehensive income, Rakuten Group calculates the amount of allowance for doubtful accounts based on the estimated credit loss arising from possible defaults during the 12 months following the end of the fiscal year, in cases where the credit risk associated with the financial instruments has not significantly increased in the period between initial recognition and the fiscal year-end. In such cases specifically, the amount of allowance for doubtful accounts associated with financial instruments is collectively calculated by forecasting the estimated credit loss for the next 12 months, based on available rational data for predictive analysis, such as the historical loan loss ratio and published default rate. On the other hand, if the credit risk associated with the financial instruments has significantly increased in the period between initial recognition and the fiscal year-end, allowance for doubtful accounts is calculated based on the estimated credit loss arising from all possible defaults over the estimated remaining life of the financial instruments (estimated credit loss over the entire period). In such cases specifically, the amount of allowance for doubtful accounts associated with financial instruments is individually calculated by forecasting the estimated credit loss associated with the collection of said financial instruments for the entire period, based on available rational data for predictive analysis, such as historical loan losses, future collectible amounts and published default rates.

Notwithstanding the above, with respect to operating receivables and contractual assets that do not contain critical financial elements, such as accounts receivables – trade (hereinafter

“operating receivables, etc.”), the amount of allowance for doubtful accounts is invariably calculated based on the estimated credit loss over the entire period. As a general rule, estimated credit loss is collectively measured after considering the available rational data for predictive analysis, such as historical loan loss ratios, that are based on operating receivables, etc. grouped by client attribute types. For financial assets with overdue periods above a certain threshold, those considered to pose significant concern for recoverability due to factors such as serious financial distress at the obligor shall be deemed to be credit-impaired.

The Group Companies directly write off credit-impaired financial assets when there are no reasonable expectations of recovering future contractual cash flows on the financial asset.

Even after a financial asset is written off, the Group Companies continue to conduct recovery activities toward fulfillment of the contract and if the financial asset is recovered, the amount recovered is recognized in net income.

Derecognition of Financial Assets

The Group Companies derecognize a financial asset when the contractual rights to the cash flows from the asset expire, or when the Group Companies transfer the contractual right to receive cash flows from financial assets in transactions in which substantially all the risks and rewards of ownership of the asset are transferred to another entity. Any rights to transferred financial assets qualifying for derecognition created or retained by the Group Companies are accounted for separately.

2) Non-derivative Financial Liabilities

Debt securities issued by the Group Companies are initially recognized on the issue date. All other financial liabilities are recognized when the Group Companies become a party to the contractual provisions of the instruments.

The Group Companies derecognize financial liabilities when they are extinguished, i.e., when the obligation specified in the contract is discharged, cancelled or expired.

The Group Companies classify financial liabilities as accounts payable-trade, deposits for banking business, financial liabilities for securities business, bonds and borrowings and other financial liabilities as non-derivative financial liabilities, initially measure them at fair value, and subsequently measure them at amortized cost using the effective interest method.

To reduce differences substantially caused by measurement of assets or liabilities or recognition of income on different bases, some deposits for banking business are designated as financial liabilities at FVTPL. Any changes in fair value of these financial liabilities that are attributable to a change in own credit risk of the liabilities are included in other components of equity.

3) Derivatives

Derivatives Qualifying for Hedge Accounting

The Group Companies enter into derivative transactions to manage the risk of fair value fluctuations, interest rate risk and foreign currency risk. The primary derivatives used by the Group Companies are interest rate swaps, forward contracts, options, foreign exchange forward contracts, and currency swaps.

At the initial designation of the hedging relationship, the Group Companies document the hedging instrument and the hedged item and the relationship between them, along with the risk management objective and strategy for undertaking the hedge, the nature of the risk being hedged,

the evaluation of the effectiveness of the hedging instrument in offsetting the hedged risk, and the measurement of ineffectiveness.

At the inception of the hedge and on an ongoing basis, the Group Companies assess whether the Group Companies can forecast if the hedging instrument is highly effective in offsetting changes in the fair value or cash flows of the hedged item attributable to the hedged risk throughout the period for which the hedge is designated.

Derivatives are initially recognized at fair value with transaction costs recognized in the Consolidated Statements of Income as incurred. Subsequently derivatives are based on fair value, and gains and losses arising from changes in fair value are accounted for as follows:

- **Fair Value Hedges**

The changes in fair value of the hedging instrument resulting from subsequent measurements are recognized in the Consolidated Statements of Income. The gains or losses on the hedged items attributable to the hedged risks are recognized in the Consolidated Statements of Income, and the carrying amounts of the hedged items are adjusted. However, when the hedged item is an equity instrument whose change in fair value is recognized in other comprehensive income, the changes in fair value of the hedging instrument resulting from subsequent measurements are also recognized in other comprehensive income. Hedge accounting is discontinued prospectively when fair value hedge no longer qualifies for hedge accounting, or when the hedging instrument expires, or is sold, terminated, or exercised.

- **Cash Flow Hedges**

When derivatives are designated as hedging instruments to hedge the exposure to variability in cash flows that are attributable to a particular risk associated with recognized assets or liabilities and might affect net income, the portion of the gain and loss on the derivative that is determined to be an effective hedge is presented as "Gains (losses) on cash flow hedges recognized in other comprehensive income" in Other Components of Equity. The balances of cash flow hedges are reclassified to income from other comprehensive income in the periods when the cash flows of hedged items affect income, in the same line items of the Consolidated Statements of Comprehensive Income as those of hedged items. The gain or loss relating to the ineffective portion is recognized immediately in the Consolidated Statements of Income. In cases where hedged items result in the recognition of non-financial assets or liabilities, the amounts recognized as other comprehensive income are accounted for as adjustments to the original carrying amount of non-financial assets or liabilities.

Hedge accounting is discontinued prospectively when the cash flow hedge no longer qualifies for hedge accounting, or when the hedging instrument expires, or is sold, terminated or exercised, and the amount recognized as Other Comprehensive Income is reclassified to income from other components of equity.

Derivatives Not Qualifying for Hedge Accounting

The Group Companies hold some derivatives for hedging purposes that do not qualify for hedge accounting. Derivatives may also be held for trading as opposed to hedging purposes. Any changes in fair value of these derivatives are recognized immediately in the Consolidated Statements of Income.

Embedded Derivatives

There are some hybrid contracts, which contain both a derivative and a non-derivative component, within the financial instruments and other contracts. In such cases, the derivative component is termed an embedded derivative, with the non-derivative component representing the host contract. Where the host contract is a financial liability, if the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid contract itself is not classified as FVTPL as a financial liability, but the embedded derivative is separated from the host contract and accounted for as a derivative. The financial liability component of the host contract is then accounted for in accordance with the Group Companies' accounting policy for non-derivative financial liabilities.

4) Presentation of Financial Instruments

Financial assets and liabilities are offset, and that net amount is presented in the Consolidated Statements of Financial Position, only when the Group Companies hold a currently enforceable legal right to set off the recognized amounts, and the Group Companies have the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

5) Financial Guarantee Contracts

Financial guarantee contracts are contracts that require the guarantor to make specified payments to reimburse the guarantee for losses incurred due to a debtor failing to make payments when due in accordance with the original or modified terms of a debt instrument.

Such financial guarantee contracts are measured initially at fair value on the date of the contract. Subsequent to initial recognition, the Group Companies measure financial guarantees, other than those based on fair value, at the higher of the amount of any loss allowance and the amount initially recognized less the cumulative amount of income.

(6) Property, Plant and Equipment

All property, plant and equipment are recorded at cost less any accumulated depreciation and accumulated impairment losses.

Cost includes costs directly attributable to the acquisition of and dismantling and removal of the asset, as well as any estimated costs of restoring the site on which they are located. Property, plant and equipment are subsequently carried on the historical cost basis measured using the cost model.

Depreciation is calculated based on the depreciable amount. The depreciable amount is the cost of an asset less its residual value.

Depreciation of property, plant and equipment is mainly computed using the straight-line method based on the estimated useful life of each component. Right-of-use assets are depreciated over the shorter of the lease term and their useful lives if there is no reasonable certainty that the Group Companies will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant assets for the previous fiscal year and the current fiscal year are as follows:

- Buildings and accompanying facilities 10–50 years
- Tools, furniture and fixtures 5–10 years
- Machinery facilities 9 years

The depreciation methods, useful lives and residual values are reviewed at the end of each

reporting period, and revised if necessary.

(7) Intangible Assets

1) Goodwill

Initial Recognition

Goodwill arising on the acquisition of a subsidiary is recognized as an intangible asset. Measurement of goodwill on initial recognition is described in (2) Business Combinations.

Subsequent Measurement

Goodwill is based on cost less accumulated impairment losses.

2) Capitalized Software Costs

The Group Companies incur certain costs to purchase or develop software primarily for internal-use.

Expenditures arising from research activities to obtain new scientific or technical knowledge are recognized as expenses when they are occurred. Expenditures arising from development activities are capitalized as software, if, and only if, they are reliably measurable, they are technically feasible, it is highly probable that they will generate future economic benefits, and the Group Companies intend and have adequate resources to complete their development and to use or sell such assets.

Capitalized software is based on cost less accumulated amortization and any accumulated impairment losses.

3) Intangible Assets Acquired in Business Combinations

Intangible assets that are acquired in business combinations, such as trademarks and other similar items, are recognized separately from goodwill, and are initially recognized at fair value at the acquisition date.

Subsequently such intangible assets are based on cost less any accumulated amortization and accumulated impairment losses.

4) Other Intangible Assets

Other intangible assets with definite useful lives are based on cost less any accumulated amortization and accumulated impairment losses.

5) Amortization

Amortization is calculated based on the acquisition cost of an asset less its residual value. Within intangible assets that useful lives can be determined, the value of the insurance business, contracts and its customer relationships acquired through business combinations are amortized over the expected service period, based on the proportion of insurance revenue occurred. Other intangible assets are amortized using the straight-line method. These methods are used because they are considered to most closely represent the pattern in which the future economic benefits of intangible assets are expected to be consumed by the Group Companies.

Estimated useful lives of significant intangible assets with definite useful lives are as follows:

- Software mainly 5 years
- Value of the insurance business and its acquired customer relationships 30 years

The amortization methods, useful lives and residual values are reviewed at the end of each

reporting period, and revised if necessary.

(8) Lease Transactions (as Lessee)

At the commencement date, the Group Companies measure lease liabilities at the present value of the lease payments that are not paid at that date. Right-of-use assets are measured initially as the total amount of the lease liabilities measured initially, initial direct costs, lease prepayments, etc. as well as the costs of carrying out obligations to restore the leased assets to its original condition as required under lease agreements.

The discount rate used in measuring the present value of the lease payments that are not paid at that date is the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group Companies use their incremental borrowing rate.

Lease payments are allocated into interest cost and the portion of the balance of the lease liabilities to be repaid, to ensure that the interest rate remains consistent in relation to the balance of the lease liabilities. Financial costs shall be presented separately from the depreciation of the right-of-use assets in the Consolidated Statements of Income.

Whether an agreement constitutes a lease agreement, or elements of a lease are determined by the substance of the agreement, regardless of whether it is legally presented in the form of a lease or not.

(9) Real estate for sale

The Group Companies measure assets held for sale under other assets at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale. Cost includes costs of purchase, costs of conversion and other costs incurred in bringing the assets to their present location and condition.

Assets held for sale are calculated using the specific identification method (in which balance sheet amounts are determined by writing down to reflect a decline in the profitability of the asset).

(10) Impairment of Non-financial Assets

The Group Companies assess at each reporting date whether there is an indication that a non-financial asset, except for inventories and deferred tax assets, may be impaired. If any such an indication exists, the Group Companies estimate the recoverable amount of the asset. For goodwill, intangible assets with indefinite useful lives, and intangible assets not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit, or group of cash-generating units (CGU) is the higher of its value in use and fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. A CGU is the smallest identifiable group of assets, which generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or group of assets.

In principle, each entity is considered to be a CGU. Goodwill is allocated to a CGU or a group of CGUs based on the unit by which the goodwill is monitored for internal management purposes.

Since corporate assets do not generate independent cash flows, if there is an indication that corporate assets may be impaired, the recoverable amount is determined for the CGU or group of CGUs to which the corporate assets belong.

Impairment losses are recognized in the Consolidated Statements of Income when the carrying amount of an asset, a CGU or a group of CGUs exceeds its recoverable amount. Such impairment losses are recognized first reducing the carrying amount of any allocated goodwill and then are allocated to the other assets of the CGU on a pro-rata basis based on the carrying amount of such assets.

Impairment losses recognized in respect of goodwill are not reversed. Assets other than goodwill are reviewed at the end of each reporting period to assess whether there is any indication that an impairment loss recognized in prior years may no longer exist or may have decreased. An impairment loss recognized is reversed if an indication of the reversal of impairment losses exists and there is a change in the estimates used to determine the asset's recoverable amount. The reversal of an impairment loss does not exceed the carrying amount, net of depreciation and amortization, which would have been determined if any impairment loss had never been recognized for the asset in prior years.

(11) Provisions

Provisions are recognized when the Group Companies have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are based on present value of the expenditures expected to be required to settle the obligation, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

(12) Insurance

General Insurance Accounting

Insurance contracts issued and reinsurance contracts held by insurers are accounted for in accordance with IFRS 4 "Insurance contracts", as well as the rules and regulations to be applied to the insurance company generally accepted in Japan.

Insurance Business Policy Reserves

In order to measure insurance liabilities using discount rates based on current market interest rates and reflect the time value of money, the Group Companies recognize interest arising from the book value of insurance liabilities during the reporting period in net income, and the fluctuation in insurance liabilities associated with changes in the discount rate applied are recognized in Other comprehensive income.

A liability adequacy test is performed in respect of the estimated present value of cash inflows, such as related insurance premiums and investment income, and cash outflows such as insurance claims and benefits and operating expenses. If the test shows that the liability is inadequate, the entire deficiency is recognized in the Consolidated Statements of Income.

(13) Equity

Common Stock

Proceeds from the issuance of equity instruments by the Company are included in "Common stock" and "Capital surplus." Direct issuance costs (net of tax) are deducted from "Capital surplus."

Treasury Stock

When the Company repurchases treasury stock, the consideration paid, including direct

transaction costs (net of tax), is recognized as a deduction from equity. When the Company sells treasury stock, the consideration received is recognized as an addition to equity.

(14) Share-based Payments

The Group Companies have share option plans as incentive plans for directors, executive officers, and employees. The fair value of share options at the grant date is recognized as an employee expense over the vesting period from the grant date as a corresponding increase in capital surplus. The fair value of the share options is measured using the Black-Scholes model or other models, taking into account the terms of the options granted. The Group Companies regularly review the assumptions and revise estimates of the number of options that are expected to vest, as necessary.

(15) Revenue

The Group Companies recognize revenue, excluding interest and dividend income and other such income from financial instruments recognized in accordance with IFRS 9, insurance revenues recognized in accordance with IFRS 4 and lease income recognized in accordance with IFRS 16, upon transfer of promised goods or services to customers in amounts that reflect the consideration to which the Group Companies expect to be entitled in exchange for those goods or services based on the following five-step approach:

Step 1: Identify the contracts with customers

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The incremental costs of obtaining contracts with customers and the costs incurred in fulfilling contracts with customers that are directly associated with the contract are recognized as an asset (hereinafter, "Assets arising from contract costs") if those costs are expected to be recoverable. The incremental costs of obtaining contracts are those costs that the Group Companies incur to obtain a contract with a customer that they would not have incurred if the contract had not been obtained. Assets arising from contract costs are amortized using the straight-line method over a period from two to ten years depending on the estimated contract periods.

(16) Financial Income and Expenses

Financial income mainly comprises interest income, dividend income and changes in fair value of financial assets measured at FVTPL. Interest income is accrued using the effective interest method. Dividend income is recognized on the date when the right of the Group Companies to receive the dividend is established.

Financial expenses mainly comprise interest expenses. Interest expenses are accrued using the effective interest method.

Financial income and expenses incurred from the finance business of the subsidiaries are included in "Revenue" and "Operating expenses."

(17) Government Grants

The Group Companies account for grants for expenses required to return points to operators and consumers using cashless payments based on the "Point Reward Project for Consumers using

Cashless Payment” announced by the Payments Japan Association as government grants.

These government grants are recognized when the conditions attached to the issuance of the grants are satisfied and there is reasonable assurance that the grants will be received. Income related to Government grant is recognized in net income throughout the period in which the expenses reimbursed by the grants are recognized. Government grants related to assets are recognized as deferred income and are amortized over the useful life of the related assets. Government grants recognized in net income are deducted from the related expenses. The amount of government grants is finalized after the completion of the government assistance project and all invoices for the payments are settled.

(18) Employee Benefits

1) Short-term Employee Benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed during the period when the related service is rendered. Accrued bonuses are recognized as liabilities, when the Group Companies have present legal or constructive obligations and when reliable estimates of the obligations can be made.

2) Retirement Benefits

The Group Companies mainly adopt the defined benefit system as their retirement benefit system.

Defined Benefit System

The net defined benefit liability (asset) is measured at the present value of the defined benefit obligation less fair value of plan asset (adjusted, as necessary, for any effect of limiting a net defined benefit asset to the asset ceiling), and recognized as employee retirement benefit liabilities or assets in the Consolidated Statements of Financial Position. The projected unit credit method is used to calculate the defined benefit obligation and its present value is determined by applying a discount rate to the expected future payments required to settle the obligation. The discount rate is determined by reference to market yields at the end of the reporting period on high quality corporate bonds with maturities which match the estimated maturity of the benefit payments.

Service costs and net interest on the net defined benefit liability (asset) are recognized in net income. Actuarial gains and losses and return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) are recognized as remeasurements in the period in which they were incurred under other comprehensive income. Additionally, past service cost is recognized in net income at the earlier of when the plan amendment or curtailment occurs; and when related restructuring costs or termination benefits are recognized.

(19) Current and Deferred Income Tax

The income tax expense comprises current and deferred taxes. These are recognized in the Consolidated Statements of Income, except for income taxes which arise from business combinations or which are recognized either in other comprehensive income or directly in equity.

Current taxes are calculated as the expected tax payable or receivable on taxable income, using the tax rates enacted or substantially enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized on temporary differences between the carrying amounts of assets and liabilities in the Consolidated Statements of Financial Position and their corresponding tax bases. Deferred tax assets and liabilities are not recognized if the

temporary difference arises from the initial recognition of an asset or liability in a transaction, which is not a business combination and, at the time of the transaction, affects neither income in the Consolidated Statements of Income nor taxable income.

Deferred tax assets and liabilities are based on the tax rate that is expected to apply in the period when the related deferred tax asset is realized or the deferred tax liability is settled, based on tax laws that have been enacted or substantively enacted by the end of reporting period.

Deferred tax assets are recognized for unutilized tax losses, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable income will be available against which such temporary differences can be utilized.

Deferred tax assets and liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures. However, if the Group Companies are able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future, deferred tax liabilities are not recognized. Deferred tax assets are recognized only to the extent that it is probable that there will be sufficient taxable income against which the benefit of temporary differences can be utilized and the temporary differences will reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to settle current tax assets and liabilities on a net basis.

The Company and some of its subsidiaries have adopted the consolidated taxation system.

(20) Earnings Per Share

The Group Companies disclose basic and diluted earnings (losses) per share (attributable to the owners of the Company) related to common stock. Basic earnings (losses) per share is calculated by dividing net income (loss) (attributable to equity owners of the Company) by the weighted average number of common stock outstanding during the reporting period, adjusted for the number of treasury stock held. Diluted earnings (losses) per share are calculated, for the dilutive effects of all potential common stock by dividing net income (loss) (attributable to the owners of the Company) by the weighted average number of common stock outstanding during the reporting period, adjusted for the number of treasury stock. Potential common stock of the Group Companies relates to the share option plan.

(21) Operating Segments

Operating segments correspond to business activities, from which the Group Companies earn revenues and incur expenses, including revenues and expenses relating to transactions with other operating segments. Discrete financial information for operating results of all operating segments is available, and is regularly reviewed by the Board of Directors of the Group Companies in order to determine the allocation of resources to the segment and assess its performance.

[Changes in Presentation]

(Consolidated Statements of Cash Flows)

Proceeds from sales and redemption of other financial assets, which were included in other proceeds in cash flows from investing activities in the previous fiscal year, have been presented separately from the current fiscal year due to its increased materiality. In order to reflect this

change in presentation method, the corresponding amounts from the Consolidated Financial Statements for the previous fiscal year have been reclassified.

As a result, in the Consolidated Statements of Cash Flows for the previous fiscal year, other proceeds of ¥11,750 million in cash flows from investing activities have been reclassified as proceeds from sales and redemption of other financial assets of ¥831 million and other proceeds of ¥10,919 million.

3. Significant Accounting Estimates and Judgments

(1) Significant Accounting Estimates and Assumptions

In the preparation of the Consolidated Financial Statements in accordance with IFRS, the Group Companies make estimates and assumptions concerning future events. These accounting estimates may inherently differ from actual results. Estimates and assumptions that may have a significant risk of material adjustment to the carrying amounts of assets and liabilities within following reporting periods are discussed below.

(a) Goodwill Assessment (Note 2 “Accounting Policies” (10) and Note 18 “Intangible Assets”)

An impairment test is conducted at least once a year for goodwill recognized by the Group Companies, regardless of whether there is an indication of impairment or not. The recoverable amount of CGUs, to which goodwill is allocated, is mainly calculated based on estimated future cash flows, estimated growth rates, and discount rates. These calculations are based on judgments and assumptions that are made by management of the Group Companies considering business and market conditions. The Group Companies consider these assumptions to be significant because, if the assumed conditions change, the estimated recoverable amounts might be significantly different.

(b) Recoverability of Deferred Tax Assets (Note 2 “Accounting Policies” (19) and Note 26 “Income Tax Expense”)

For temporary differences that are differences between carrying value of an asset or liability in the Consolidated Statements of Financial Position and its tax base, the Group Companies recognize deferred tax assets and deferred tax liabilities in respect of such deferred tax assets and deferred tax liabilities calculated using the tax rates based on tax laws that have been enacted or substantively enacted by the end of the reporting period and the tax rates that are expected to apply to the period when the deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets are recognized for all deductible temporary differences, unutilized tax losses carried forward and unutilized tax credits carried forward to the extent that it is probable that taxable income will be available. The estimation of taxable income for the future is calculated based on the business plan approved by management of the Group Companies, and is based on management's subjective judgments and assumptions. The Group Companies consider these assumptions to be significant because changes in the assumed conditions and amendments of tax laws in the future might significantly affect the calculation of the amounts of deferred tax assets and deferred tax liabilities.

(c) Methods of Determining Fair Value for Financial Instruments Measured at Fair Value Including Derivative Instruments (Note 2 “Accounting Policies” (5) and Note 40 “Fair Value of Financial Instruments”)

Financial assets and financial liabilities including derivatives, held by the Group Companies are

based on the following fair values:

- Quoted prices in active markets for identical assets or liabilities;
- Fair value calculated using observable inputs other than quoted prices for the assets or liability, either directly or indirectly; and
- Fair value calculated using valuation techniques incorporating unobservable inputs.

In particular, fair values estimated through valuation techniques that incorporate unobservable inputs is based on the decisions and assumptions of management of the Group Companies, such as appropriate base rates, assumptions, and the models utilized. The Group Companies consider these estimations to be significant as it is probable that the changes of estimations and assumptions might cause significant impact on the calculation of fair value for financial instruments.

- (d) Impairment of Financial Assets Measured at Amortized Cost and Debt Instrument Measured at Fair Value through Other Comprehensive Income (Note 2 “Accounting Policies” (5), Note 15 “Allowance for doubtful Accounts” and Note 43 “Financial Risk Management”)

Rakuten Group recognizes estimated credit losses in respect of financial assets measured at amortized cost and debt instruments based on fair value through other comprehensive income, at present value of the difference between future contractual cash flows recoverable, and future contractual cash flows expected to be received.

Estimation of future cash flows considers factors including the possibility of default, historical trend concerning the amount of credit loss, and reasonably expected future events. Since these accounting estimates and accounting assumptions may, if the assumptions on which they are based vary, have a significant impact on the amount of impairment losses in respect of debt instruments measured at amortized cost and at fair value through other comprehensive income, Rakuten Group determines that such estimations are significant.

- (e) Provisions (Note 2 “Accounting Policies” (11) and Note 23 “Provisions”)

The Group Companies record certain provisions, such as provision for customer points. Regarding the provision for customer points, in preparation for the future use of points by members, the Group Companies use historical experience to estimate the provision for the Rakuten Point Program. The provision is estimated on the premise of management’s decisions and the assumptions of the Group Companies. The Group Companies consider the estimation to be significant as it is probable that the changes of estimation and assumptions could have a significant influence on the calculation of the amount of the provisions.

- (f) Liability Adequacy Test for Insurance Contracts (Note 2 “Accounting Policies” (12) and Note 24 “Insurance Business Policy Reserves”)

The Group Companies perform a liability adequacy test for insurance contracts considering estimated present value of cash inflows such as related insurance premiums and investment income, and cash outflows such as insurance claims and benefits and operating expenses.

- (g) Assumptions used in the measurement of post-employment benefit obligations (Note 2 “Accounting Policies” (18) and Note 25 “Employee Benefits”)

The Group Companies have defined-benefit retirement benefit plans. The present value of defined benefit obligations and related service costs are calculated on the basis of actuarial assumptions. Actuarial assumptions require making estimates and judgments on variables such as discount

rates.

Actuarial assumptions are determined by the best estimates and judgment of the Group Companies' management. In the event that it becomes necessary to amend these estimates and judgment, due to changes in the situations assumed, given that it could significantly affect the amount of employee retirement benefit liabilities, the Group Companies consider such estimates to be significant.

(h) Measurement of Lease Liabilities (Note 2 "Accounting Policies" (8), Note 21 "Bonds and Borrowings" and Note 42 "Lease Accounting")

The Group Companies determine the lease term taking into account the non-cancellable period of a lease together with the period which is reasonably certain to be extended and the period which is reasonably certain not to be terminated. Specifically, the lease term is estimated by taking into consideration whether an extension option or a termination option is included, the probability of that option being exercised, and other factors. The Group Companies consider these estimations to be significant, as it is probable that depending on the results of future contract renewal negotiations, they might cause a significant impact on right-of-use assets and lease liabilities.

(2) Significant Judgment in Applying the Accounting Policies of the Group Companies

In the process of applying the accounting policies, management of the Group Companies has made certain decisions which significantly impact the amounts recognized in the Consolidated Financial Statements.

The Group Companies, mainly in the banking business and the credit card business, transact with structured entities, which are designed so that voting rights or similar rights are not the dominant factor in deciding who controls the entities. Management of the Group Companies decide whether the Group Companies are controlling the entities or not. All related facts and circumstances on the involvement with the structured entity are considered in deciding whether control over such an entity exists.

(3) Significant Accounting Estimates in Conjunction with the Spread of COVID-19

Estimates and judgments that have significant impact on the amounts in the Consolidated Financial Statements for the current fiscal year remain the same in principle as those for the previous fiscal year.

We face uncertainties stemming from deteriorating economic conditions caused by the COVID-19 pandemic, including sluggish consumer spending and increases in the unemployment rate and corporate bankruptcies. But their impact on the Company has been limited, which is evident from the actual business results since the first quarter ended March 31, 2020 when signs of worsening economic activity began to appear following the spread of the pandemic, as the Group Companies provide more than 70 services in a wide range of fields.

The spread of COVID-19 will continue to be a business risk for the Company. However, the Group Companies are studying strategies to flexibly change the business models of each service, while encouraging growth. Therefore, the aforementioned pandemic has not resulted in changes in accounting estimates and judgments that would have an overall material impact on the Consolidated Financial Statements for the current fiscal year, except for the accounting estimate for the allowance for doubtful accounts related to the credit card business loans as mentioned below.

Although there has been no significant deterioration in collection of loans provided as part of credit card business until the end of the current fiscal year, the accounting estimate of allowance for doubtful accounts has been adjusted as necessary to prepare for deteriorating credit risk and possible incurrence of losses in light of uncertainties based on the future spread of COVID-19.

If the COVID-19 expansion radically changes and 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.

4. 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 had been organized into three reportable segments: “Internet Services,” “FinTech” and “Mobile.”

Discrete financial information for operating results of these segments is available, and is regularly reviewed by the Board of Directors to determine the allocation of resources and assess performance.

The “Internet Services” segment comprises businesses providing various EC (e-commerce) sites including internet shopping mall “Rakuten Ichiba”, online cash-back sites, travel booking sites and portal sites, along with business for advertising etc. delivered on these sites. Additionally, this segment includes businesses managing professional sports teams.

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

The “Mobile” segment engages in businesses for the provision of communication and messaging services, and businesses providing digital content sites.

(2) Measurement of Segment Profit and Loss

The operating segment information is prepared in accordance with IFRS, and operating segment revenue and segment profit (loss) is that before intercompany eliminations without consideration of consolidation adjustments, except for certain consolidated subsidiaries. The internal measures management uses in making decisions are Non-GAAP operating income. accounting principles generally accepted in Japan (JGAAP), the accounting framework under which the Group prepared its consolidated financial statements prior to its adoption of IFRS. Non-GAAP operating income is calculated by adjusting the nonrecurring items and other adjustment items prescribed by the Group Companies from the operating income recorded in accordance with IFRS.

Management believes that the disclosure of Non-GAAP financial measures facilitates comparison between the Group Companies and peer companies in the same industry or comparison of their business results with those of prior fiscal years by stakeholders, and can provide useful information in understanding the underlying business results of the Group Companies and their future outlook. Nonrecurring items refer to one-off items that the Group Companies believe should be excluded in preparing a future outlook based on certain parameters. Other adjustment items are those that tend to differ depending on the standards; therefore are less comparable between companies. Examples of such items are stock-based compensation expense and amortization of acquisition-related intangible assets.

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

For the year ended December 31, 2019 (January 1 to December 31, 2019)

(Millions of Yen)

	Internet Services	FinTech	Mobile	Total
Segment Revenue	¥743,266	¥486,372	¥169,054	¥1,398,692
Segment Profit (Loss)	107,211	69,306	(76,524)	99,993
Other items				
Depreciation and amortization	19,352	38,018	21,003	78,373

For the year ended December 31, 2020 (January 1 to December 31, 2020)

(Millions of Yen)

	Internet Services	FinTech	Mobile	Total
Segment Revenue	¥820,115	¥576,195	¥227,142	¥1,623,452
Segment Profit (Loss)	40,114	81,291	(226,976)	(105,571)
Other items				
Depreciation and amortization	31,546	46,625	52,620	130,791

Note: To enhance collaboration and synergy between digital content services and mobile services, some businesses and subsidiaries have been transferred within the segments from the fiscal year ended December 31, 2020. The main change was made to businesses that operate digital content sites, including Rakuten Kobo Inc. which was previously included in the Internet Services segment, were transferred to the Mobile segment. Due to this transfer, segment information for the previous fiscal year has been restated accordingly.

The reconciliation of segment revenue to consolidated revenue is as follows:

	(Millions of Yen)	
	Year ended December 31, 2019	Year ended December 31, 2020
Segment Revenue	¥1,398,692	¥1,623,452
Intercompany transactions, etc.	(134,760)	(167,914)
Consolidated revenue	1,263,932	1,455,538

The reconciliation of segment profit or loss to loss before income tax is as follows:

	(Millions of Yen)	
	Year ended December 31, 2019	Year ended December 31, 2020
Segment Profit (Loss)	¥99,993	¥(105,571)
Intercompany transactions, etc.	(4,864)	2,904
Non-GAAP operating income (loss)	95,129	(102,667)
Amortization of intangible assets	(8,764)	(9,502)
Stock-based compensation expense	(10,137)	(10,612)
One-off items (losses) (Note)	(3,483)	28,932
Operating income (loss)	72,745	(93,849)
Financial income and expenses	(5,385)	(19,457)
Share of losses of associates and joint ventures	(111,918)	(37,710)
Loss before income tax	(44,558)	(151,016)

Note: For the previous fiscal year, one-off items including an impairment loss on fixed assets in the U.S. etc., of ¥3,483 million were recorded. One-off items listed for the fiscal year ended December 31, 2020 include a gain on sales of all shares in OverDrive Holdings, Inc. of ¥40,926 million, losses on investments in the filmmaking business of ¥3,277 million, and mainly impairment of fixed assets due to the closure of a U.S. based business.

(3) Products and Services

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

	(Millions of Yen)					
	Rakuten Ichiba and Rakuten Travel	Rakuten Card	Rakuten Bank	Rakuten Mobile	Others	Revenue from external customers
Year ended December 31, 2019	¥270,674	¥168,085	¥72,045	¥80,462	¥672,666	¥1,263,932
Year ended December 31, 2020	310,940	183,480	76,855	125,306	758,957	1,455,538

(4) Geographic Information

For the year ended December 31, 2019

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

For the year ended December 31, 2020

	(Millions of Yen)					
	Japan	Americas	Europe	Asia	Others	Total
Revenue from external customers	¥1,199,807	178,807	33,877	42,284	763	1,455,538
Property, plant and equipment and intangible assets	1,006,602	180,891	96,733	36,500	2,973	1,323,699

(5) Major Customers

For the year ended December 31, 2019

There are no major customers disclosed because the proportion of revenue from an individual external customer does not exceed 10% of consolidated revenue.

For the year ended December 31, 2020

There are no major customers disclosed because the proportion of revenue from an individual external customer does not exceed 10% of consolidated revenue.

5. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows.

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Cash and deposits	¥1,478,557	¥3,021,306
Cash and cash equivalents	1,478,557	3,021,306

Funds (cash and cash equivalents) stated in the Group Companies' Consolidated Statements of Cash Flows include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and insignificant risk of changes in value. However, short-term highly liquid investments in the banking business are excluded.

6. Accounts Receivable — Trade

The breakdown of accounts receivable — trade is as follows.

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Accounts receivable — trade measured at amortized cost		
Notes and accounts receivable — trade	¥230,388	¥252,834
Gross amount of accounts receivable — trade measured at amortized cost	230,388	252,834
Allowance for doubtful accounts	(8,024)	(8,950)
Net amount of accounts receivable — trade measured at amortized cost	222,364	243,884
Accounts receivable — trade measured at FVTPL	121	2
Total accounts receivable — trade	222,485	243,886

Accounts receivable — trade is mainly generated from sales related to the Internet Services business. Accounts receivables – trade classified as “measured at amortized cost” are limited to those accounts receivables – trade held as part of the Group Companies’ business model with, the objective of collecting contractual cash flows and a date of receipt of principal as specified in the contract conditions. All other accounts receivables – trade are classified as “measured at FVTPL.”

7. Financial Assets for Securities Business

The breakdown of financial assets for securities business is as follows.

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Financial assets measured at amortized cost		
Cash segregated as deposits	¥1,241,980	¥1,563,586
Accounts receivable relating to investment securities transactions	236,130	478,503
Margin transactions assets	406,325	503,798
Short-term guarantee deposits	76,092	105,795
Others	16,636	22,582
Gross amount of financial assets measured at amortized cost	1,977,163	2,674,264
Allowance for doubtful accounts	(2,102)	(1,884)
Net amount of financial assets measured at amortized cost	1,975,061	2,672,380
Financial assets measured at FVTPL	948	849
Total financial assets for securities business	1,976,009	2,673,229

Investment securities held for trading purposes are included in financial assets measured at FVTPL.

Derivative assets held for trading purposes are included in "Derivative assets," while operating investment securities are included in "Investment securities."

8. Loans for Credit Card Business

The breakdown of loans for credit card business is as follows.

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Gross amount of loans for credit card business	¥1,910,840	¥2,117,358
Allowance for doubtful accounts	(82,624)	(84,345)
Net amount of loans for credit card business	1,828,216	2,033,013

Loans for credit card business mainly comprise accounts receivable arising from the use of credit cards by customers based on installment contracts and similar.

Loans for credit card business are measured at amortized cost because they are classified as financial assets held as part of the Group Companies' business model with the objective of collecting contractual cash flows, and such cash flows are limited to solely repayments of principal including interest on the principal balance outstanding.

9. Investment Securities for Banking Business

The breakdown of investment securities for banking business is as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Financial assets measured at amortized cost		
Foreign bonds	¥13,304	¥13,061
Others	673	46
Gross amount of financial assets measured at amortized cost	13,977	13,107
Allowance for doubtful accounts	(99)	(12)
Net amount of financial assets measured at amortized cost	13,878	13,095
Financial assets measured at FVTPL		
Trust beneficiary rights	1,137	1,061
Foreign bonds	220	192
Total financial assets measured at FVTPL	1,357	1,253
Debt instruments measured at FVTOCI		
Trust beneficiary rights	105,649	154,430
Domestic bonds	151,827	97,449
Total debt instruments measured at FVTOCI (Note)	257,476	251,879
Equity instruments measured at FVTOCI	0	0
Total investment securities for banking business	272,711	266,227

(Note) Loss allowance on debt instruments measured at fair value through comprehensive income amounted to ¥40 million for the year ended December 31, 2019 and ¥38 million for the year ended December 31, 2020, and are included in Other Comprehensive Income respectively.

Within investment securities for banking business, investment securities held with the objective of collecting contractual cash flows limited to solely payments of principal and interest on the principal balance outstanding on a specified date in accordance with the contractual terms, are classified as financial assets measured at amortized cost, while all other investment securities are classified as financial assets measured at fair value. Within financial assets measured at fair value, investments in equity instruments are designated as financial assets measured at FVTOCI. Additionally, investment securities held for the objective of both collecting contractual cash flows and selling financial assets and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding are classified as debt instruments measured at fair value through other comprehensive income. All other investment securities are classified as financial assets measured at fair value through net income. However, investments in equity instruments, for which an irrevocable election had been made to present subsequent changes in fair value in other comprehensive income, are classified as equity instruments measured at fair value through other comprehensive income.

10. Loans for Banking Business

The breakdown of loans for banking business is as follows.

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Gross amount of loans for banking business	¥1,062,947	¥1,448,697
Allowance for doubtful accounts	(12,954)	(12,184)
Net amount of loans for banking business	1,049,993	1,436,513

Loans for banking business mainly comprise loan receivables from individual customers.

Loans for banking business are measured at amortized cost because they are defined as financial assets held as part of the Group Companies' business model with the objective of collecting contractual cash flows, and such cash flows are limited to repayments of principal including interest on the principal balance outstanding.

11. Investment Securities for Insurance Business

The breakdown of investment securities for insurance business is as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Financial assets measured at FVTPL		
Domestic bonds	2,699	2,796
Beneficiary investment trust securities		
Unlisted	513	519
Others	2,216	2,169
Total financial assets measured at FVTPL	5,428	5,484
Debt instruments measured at FVTOCI		
Trust beneficiary rights	4,839	5,470
Domestic bonds	44,680	77,639
Foreign bonds	25,598	46,446
Total debt instruments measured at FVTOCI (Note)	75,117	129,555
Equity instruments measured at FVTOCI		
Domestic bonds	5,803	8,572
Stock		
Listed	48,034	27,913
Unlisted	5,037	4,807
Beneficiary investment trust securities		
Listed	146,779	107,638
Others	1,002	0
Total equity instruments measured at FVTOCI	206,655	148,930
Total investment securities for insurance business	287,200	283,969

(Note) Loss allowance on debt instruments measured at fair value through comprehensive income amounted to ¥6 million for the year ended December 31, 2019 and ¥42 million for the year ended December 31, 2020, and are included in other comprehensive income respectively.

Within investment securities for insurance business, investment securities held as part of the Group Companies' business model with the objective of collecting contractual cash flows limited to solely payments of principal and interest on the principal balance outstanding on a specified date in accordance with the contractual terms, are classified as financial assets measured at amortized cost, while all other investment securities are classified as financial assets measured at fair value. Within financial assets measured at fair value, investments in equity instruments are designated as financial assets measured at FVTOCI.

12. Derivative Assets and Derivative Liabilities

The fair values and notional principal amounts of derivatives qualifying for hedge accounting and derivatives not qualifying for hedge accounting are as follows:

Derivatives Qualifying for Hedge Accounting

						(Millions of Yen)
	December 31, 2019					Average rate
	Notional principal amount by due date			Fair value		
	One year or less	Over one year	Total	Assets	Liabilities	
Fair value hedges						
Value fluctuation risk						
Interest rate swap contracts	¥—	¥12,500	¥12,500	¥—	¥277	Floating interest rate 0.431% Fixed interest rate 1.637%
Over-the-counter forward contracts	67,888	—	67,888	996	—	
Option contracts	157,099	—	157,099	—	3,302	
Cash flow hedges						
Exchange rate risk						
Foreign exchange forward contracts	4,436	93,715	98,151	33	903	1 U.S. dollar=¥99.44 1 U.S. dollar=1.31 Canadian dollars 1 Euro= 1.48 Canadian dollars
Currency swap contracts	—	12,423	12,423	67	13	1 U.S. dollar= ¥109.16
Interest rate risk						
Interest rate swap contracts	2,205	111,259	113,464	—	896	Floating interest rate 0.511% Fixed interest rate 0.917%
Total	231,628	229,897	461,525	1,096	5,391	

(Millions of Yen)

December 31, 2020						
	Notional principal amount by due date			Fair value		Average rate
	One year or less	Over one year	Total	Assets	Liabilities	
Fair value hedges						
Value fluctuation risk						
Interest rate swap contracts	¥8,200	¥4,300	¥12,500	¥—	¥141	Floating interest rate 0.431% Fixed interest rate 1.637%
Over-the-counter forward contracts	106,183	—	106,183	—	5,581	
Option contracts	—	—	—	—	—	
Cash flow hedges						
Exchange rate risk						
Foreign exchange forward contracts	10,568	6,808	17,376	123	391	1 U.S. dollar=¥99.40 1 U.S. dollar=1.30 Canadian dollars 1 Euro= 1.58 Canadian dollars 1 Canadian dollar dollar=¥79.02
Currency swap contracts	—	99,279	99,279	297	654	1 U.S. dollar= ¥109.16
Interest rate risk						
Interest rate swap contracts	3,502	129,683	133,185	—	1,223	Floating interest rate 0.508% Fixed interest rate 0.896%
Total	128,453	240,070	368,523	420	7,990	

Derivatives Not Qualifying for Hedge Accounting

(Millions of Yen)

		(millions of Yen)					
		December 31, 2019			December 31, 2020		
		Notional principal amount	Fair value		Notional principal amount	Fair value	
			Assets	Liabilities		Assets	Liabilities
Foreign currency contracts							
	Foreign exchange forward contracts	¥95,676	¥2,621	¥314	¥104,931	¥3,324	¥422
	Foreign exchange margin contracts	2,510,664	21,504	3,830	4,316,850	27,501	3,906
	Currency option contracts	139	0	0	—	—	—
	Total of foreign currency contracts	2,606,479	24,125	4,144	4,421,781	30,825	4,328
Interest rate contracts							
	Interest rate swap contracts	138,936	735	637	116,279	510	416
Share price contracts							
	Option contracts (Note)	1,403	2,085	—	93,552	869	65,513
	Total of share price contracts	1,403	2,085	—	93,552	869	65,513
Others							
	Forward contracts	761	—	0	—	—	—
	Others	29	9	—	1,485	20	71
	Total of others	790	9	0	1,485	20	71
	Total	2,747,608	26,954	4,781	4,633,097	32,224	70,328

(Note) In the fiscal year ended December 31, 2020, the Company used a cap-and-floor-model collar transaction for the Prepaid Variable Share Forward Transactions of Lyft shares, and recorded a notional principal amount and fair value of ¥92,149 million and ¥65,513 million, respectively, for option contracts under share price contracts as derivative liabilities. Derivatives arising from the Prepaid Variable Share Forward Transactions of Lyft shares are segregated as embedded derivatives. Details of the transaction are stated in Note 22. Other Financial Liabilities “(Note) Sale of Lyft shares by forward contract.”

13. Investment Securities

The breakdown of investment securities is as follows.

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Financial assets measured at amortized cost		
Trust beneficiary rights	¥1,400	¥800
Domestic bonds	5,209	5,205
Others	1,804	2,004
Total financial assets measured at amortized cost	8,413	8,009
Financial assets measured at FVTPL		
Share		
Listed (Note)	1,702	173,515
Unlisted	143,218	78,994
Stock investment trust beneficiary securities		
Unlisted	4,249	8,343
Total financial assets measured at FVTPL	149,169	260,852
Equity instruments measured at FVTOCI		
Stock		
Listed	3,480	4,003
Unlisted	2,191	2,367
Others	6	5
Total equity instruments measured at FVTOCI	5,677	6,375
Total investment securities	163,259	275,236

(Note) Effective from the third quarter ended September 30, 2020, the Lyft shares held by the Company have been classified as financial assets measured at FVTPL, and ¥159,183 million has been recorded under investment securities. The details of this change of classification are stated in Note 1. General Information, (3) Significant Changes in the Scope of Consolidation and the Scope of Equity Method Application. As the Lyft shares held by the Company are classified as financial assets held for the purpose of financing, Rakuten Group recorded ¥56,980 million in financial income for valuation differences of fair values incurred through the fair value measurement of the Lyft shares.

14. Other Financial Assets

The breakdown of other financial assets is as follows.

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Financial assets measured at amortized cost		
Accounts receivable — other	¥113,324	¥181,043
Call loans for banking business	15,000	—
Security deposits	98,225	114,528
Others	101,942	134,001
Gross amount of financial assets measured at amortized cost	328,491	429,572
Allowance for doubtful accounts	(860)	(4,566)
Net amount of financial assets measured at amortized cost	327,631	425,006
Financial assets measured at FVTPL	7,616	11,348
Policy reserves (for reinsured portion)	54,987	56,332
Total other financial assets	390,234	492,686

15. Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts by type of debt instruments measured at amortized cost and fair value through other comprehensive income are as follows:

For the year ended December 31, 2019

(Millions of Yen)

	Accounts receivable — trade	Financial assets for securities business	Loans for credit card business	Investment securities for banking business	Loans for banking business	Investment securities for insurance business	Other financial assets	Total
January 1, 2019	¥7,462	¥1,604	¥76,146	¥274	¥14,389	¥33	¥573	¥100,481
Increase for the period (provision)	1,673	606	40,562	—	240	—	453	43,534
Increase for the period (others)	1,486	0	—	28	—	—	—	1,514
Decrease for the period (intended use)	(2,597)	(108)	(33,176)	(14)	(1,675)	—	(24)	(37,594)
Decrease for the period (reversal)	—	—	—	(149)	—	(27)	—	(176)
Decrease for the period (others)	—	—	(908)	—	—	—	(142)	(1,050)
December 31, 2019	8,024	2,102	82,624	139	12,954	6	860	106,709

The above table includes the allowance for doubtful accounts on debt instruments measured at FVTOCI. Such allowance for doubtful accounts is recognized as other comprehensive income.

For the year ended December 31, 2020

(Millions of Yen)

	Accounts receivable — trade	Financial assets for securities business	Loans for credit card business	Investment securities for banking business	Loans for banking business	Investment securities for insurance business	Other financial assets	Total
January 1, 2020	¥8,024	¥2,102	¥82,624	¥139	¥12,954	¥6	¥860	¥106,709
Increase for the period (provision)	2,797	—	41,701	—	1,173	36	3,413	49,120
Increase for the period (others)	—	0	—	1	—	—	333	334
Decrease for the period (intended use)	(1,753)	(164)	(39,946)	—	(1,943)	—	(40)	(43,846)
Decrease for the period (reversal)	—	(54)	—	(90)	—	—	—	(144)
Decrease for the period (others)	(118)	—	(34)	—	—	—	—	(152)
December 31, 2020	8,950	1,884	84,345	50	12,184	42	4,566	112,021

The above table includes the allowance for doubtful accounts on debt instruments measured at FVTOCI. Such allowance for doubtful accounts is recognized as other comprehensive income.

16. Investments in Associates and Joint Ventures

(1) Investments in Associates

The Group Companies account for investments in associates and joint ventures using equity method with some exceptions.

1) Summarized consolidated financial information, etc. on significant associates

For the year ended December 31, 2019

As of December 31, 2019, the Group Companies' stockholding and voting rights ratios in Lyft, Inc. (hereafter "Lyft") were 10.55% and 6.14%, respectively.

a) General information

Lyft is engaged in the development, marketing and operation of automobile transportation apps. Lyft is listed on the U.S. stock market.

b) Summarized financial information

Summarized financial information of Lyft is as follows.

Due to an agreement with Lyft, it is not practically feasible to align reporting periods, and consequently the equity method is applied in Rakuten Group's Consolidated Financial Statements with a three-month difference in reporting periods. For the year ended December 31, 2019, necessary adjustments are made where Lyft has material transactions or any occurrence of major events that fall within the stated reporting period difference.

(Millions of Yen)

	September 30, 2019
Current assets	¥382,979
Non-current assets	236,992
Current liabilities	257,364
Non-current liabilities	39,441
Equity	
Equity attributable to owners of the Company	323,166

(Millions of Yen)

	From the moment of becoming an associate to September 30, 2019
Revenue	¥198,692
Net loss	(120,741)
Other comprehensive income (loss), net of tax	266
Total comprehensive income (loss)	(120,475)

	(Millions of Yen)
	From the moment of becoming an associate to September 30, 2019
Net loss attributable to owners of the Company	¥(120,741)
Other comprehensive income (loss), net of tax attributable to owners of the Company	266
Total comprehensive income (loss) attributable to owners of the Company	(120,475)

(Note) In the nine months ended September 30, 2019, there was no dividend income received from Lyft.

In addition, the adjustment of the equity attributable to owners of the Company based on the above summarized consolidated financial information and the carrying amount of the equity in Lyft is as follows:

	(Millions of Yen)
	December 31, 2019
Equity attributable to owners of the Company	¥323,166
Equity ratio (%)	10.55%
Equity attributable to the Company	34,082
Goodwill and consolidation adjustments (Note)	94,129
Carrying amount of equity in Lyft	128,211

(Note) Impairment loss recorded in the year ended December 31, 2019

The Group judged that there is objective evidence that the investment in Lyft, accounted for using the equity method, was impaired due to a significant decline in the market price of its shares, and the recoverable amount was computed with reference to the market price as of September 30, 2019. As a result, an impairment loss of ¥102,873 million was recorded. The fair value was based on the market price of the securities exchange and is classified as Level 1 in the Fair Value Hierarchy.

c) Fair value of investments

The fair value of investments in Lyft as of December 31, 2019 based on the market price is ¥146,004 million.

For the year ended December 31, 2020

The Lyft shares held by the Company, which were previously accounted for using the equity method, have been accounted for as financial assets measured at FVTPL from the beginning of the third quarter ended September 30, 2020. Details of this change of classification are stated in Note 1. General Information, (3) Significant Changes in the Scope of Consolidation and the Scope of Equity Method Application. As a result, ¥25,017 million was recorded in the Consolidated Statements of Income, as share of losses of investments in associates and joint ventures, which is the sum of loss on our Lyft shareholding from the beginning of the third quarter ended September 30, 2020, to the date of the director's resignation, and a loss caused by the said change in accounting treatment for Lyft shares.

2) Investments in insignificant associates

The carrying amounts of investments in associates and joint ventures, which are all individually insignificant, are as follows:

(Millions of Yen)		
	December 31, 2019	December 31, 2020
Total carrying amount	¥47,754	¥56,777

Financial information on associates and joint ventures, which are all individually insignificant, is as follows. The following amounts represent the Group Companies' portion of ownership interests.

(Millions of Yen)		
	Year ended December 31, 2019	Year ended December 31, 2020
Net loss	¥(1,409)	¥(4,747)
Other comprehensive income (loss)	(242)	(1,588)
Comprehensive income (loss)	(1,651)	(6,335)

(2) Investments in Joint Ventures

For certain investments in companies, the Group Companies have entered into contracts which require unanimous consent among the counterparties for decisions that significantly affect the returns from the investment. As the Group Companies exercise joint control with such counterparties and have rights to the investee's net assets, such companies are determined to be joint ventures and are accounted for using equity method.

The total carrying amounts of investments in individually insignificant joint ventures are as follows:

(Millions of Yen)		
	December 31, 2019	December 31, 2020
Total carrying amount	¥1,234	¥1,295

Aggregate financial information on individually insignificant joint ventures is as follows. The following amounts represent the Group Companies' portion of ownership interests.

(Millions of Yen)		
	Year ended December 31, 2019	Year ended December 31, 2020
Net income (loss)	¥(113)	¥202
Comprehensive income (loss)	(113)	202

17. Property, Plant and Equipment

(1) Schedule of Changes in Property, Plant and Equipment

(Millions of Yen)

	Buildings and accompanying facilities	Tools, furniture and fixtures	Machinery facilities	Construction in progress	Right-of- use assets	Others	Total
January 1, 2019							
Cost	¥54,311	¥60,151	¥—	¥8,840	¥—	¥21,733	¥145,035
Accumulated depreciation and accumulated impairment losses	(13,788)	(30,838)	—	—	—	(9,074)	(53,700)
Carrying amount	40,523	29,313	—	8,840	—	12,659	91,335
Cumulative impact from change in accounting policies	(9,753)	(7,272)	—	—	104,162	(304)	86,833
Increases	9,315	10,830	51,134	54,570	106,994	14,416	247,259
Acquisition through business combinations	33	21	—	48	63	(35)	130
Disposals and sales	(411)	(121)	—	(22)	(234)	(5)	(793)
Impairment losses	(33)	(797)	—	(29)	(101)	(0)	(960)
Depreciation	(2,975)	(7,312)	(1,561)	—	(20,494)	(939)	(33,281)
Exchange rate differences	(291)	(74)	—	(7)	(183)	(67)	(622)
Other changes	61	(855)	—	(4,591)	(8,212)	120	(13,477)
December 31, 2019							
Cost	48,197	56,859	51,134	58,809	210,507	35,186	460,692
Accumulated depreciation and accumulated impairment losses	(11,728)	(33,126)	(1,561)	—	(28,512)	(9,341)	(84,268)
Carrying amount	36,469	23,733	49,573	58,809	181,995	25,845	376,424
Increases	16,770	28,080	113,340	88,656	139,328	5,013	391,187
Acquisition through business combinations	328	238	—	199	557	19	1,341
Disposals and sales	(2,170)	(870)	(8)	(12,538)	(4,427)	(443)	(20,456)
Impairment losses	(182)	(381)	—	—	(28)	(155)	(746)
Depreciation	(4,448)	(8,979)	(12,393)	—	(35,718)	(1,305)	(62,843)
Exchange rate differences	(806)	(82)	—	(3)	(273)	(192)	(1,356)
Other changes	(353)	301	187	2,262	(1,758)	(80)	559
December 31, 2020							
Cost	60,884	80,668	164,671	137,385	341,856	38,895	824,359
Accumulated depreciation and accumulated impairment losses	(15,276)	(38,628)	(13,972)	—	(62,180)	(10,193)	(140,249)
Carrying amount	45,608	42,040	150,699	137,385	279,676	28,702	684,110

With respect to construction in progress in the table above, 'Increases' includes the increase due to new acquisitions net of the decrease due to reclassification to other classes of property, plant and equipment.

Depreciation is presented within "Operating expenses" and Impairment loss is presented within "Other expenses" in the Consolidated Statements of Income.

(2) Impairment of Property, Plant and Equipment

The Group Companies assess, at each reporting date, whether there are any indications that property, plant and equipment may be impaired. If any indication exists, the Group Companies estimate the recoverable amount of the asset.

In principle, the Group Companies estimate the recoverable amount of individual assets. However if estimation of the recoverable amount of individual assets is not possible, then estimation of the recoverable amount of the CGU to which the asset belongs is made. A CGU is the smallest identifiable group of assets, which generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. In principle, each group company is considered to be a CGU. Idle assets for which no future use is anticipated are considered individually as CGUs.

For the year ended December 31, 2019

In the Internet Services segment and the Mobile segment, impairment losses have been recorded on property, plant and equipment of ¥930 million and ¥30 million, respectively.

For the year ended December 31, 2020

In the Internet Services segment and the Mobile segment, impairment losses have been recorded on property, plant and equipment of ¥600 million and ¥146 million, respectively.

18. Intangible Assets

(1) Schedule of Changes in Intangible Assets

	(Millions of Yen)			
	Goodwill	Software	Others	Total
January 1, 2019				
Cost	¥423,727	¥278,466	¥147,334	¥849,527
Accumulated amortization and accumulated impairment losses	(70,072)	(162,926)	(62,714)	(295,712)
Carrying amount	353,655	115,540	84,620	553,815
Increases	—	83,293	37,318	120,611
Acquisition through business combinations	4,485	906	831	6,222
Disposals and sales	—	(2,263)	(96)	(2,359)
Impairment losses	—	(1,727)	(1,954)	(3,681)
Amortization	—	(35,693)	(23,205)	(58,898)
Exchange rate differences	(3,458)	(151)	(141)	(3,750)
Other changes	719	(3,335)	106	(2,510)
December 31, 2019				
Cost	422,129	350,161	182,776	955,066
Accumulated amortization and accumulated impairment losses	(66,728)	(193,591)	(85,297)	(345,616)
Carrying amount	355,401	156,570	97,479	609,450
Increases	—	101,904	7,487	109,391
Acquisition through business combinations	21,220	9,696	1,900	32,816
Disposals and sales	(9,367)	(2,220)	(6,876)	(18,463)
Impairment losses	—	(4,514)	(427)	(4,941)
Amortization	—	(50,847)	(21,658)	(72,505)
Exchange rate differences	(10,834)	(352)	(652)	(11,838)
Other changes	(61)	(4,306)	46	(4,321)
December 31, 2020				
Cost	422,177	434,671	174,772	1,031,620
Accumulated amortization and accumulated impairment losses	(65,818)	(228,740)	(97,473)	(392,031)
Carrying amount	356,359	205,931	77,299	639,589

Software under intangible assets mainly comprises internally generated software.

Amortization of intangible assets is presented in “Operating expenses” and impairment loss is presented in “Other expenses” in the Consolidated Statements of Income.

Research and development expenses recognized as expenses for the years ended December 31, 2019 and 2020 were ¥9,094 million and ¥10,488 million, respectively.

(2) Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

The balance of goodwill and intangible assets with indefinite useful lives of each CGU or group of CGUs is as follows.

		(Millions of Yen)			
Operating segment	CGU or a group of CGUs	December 31, 2019		December 31, 2020	
		Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
Internet Services	Internet Services segment	¥278,082	¥118	¥255,344	¥1,003
	Rakuten Bank, Ltd.	32,886	—	32,886	—
FinTech	Others	21,475	—	21,406	—
	Total	54,361	—	54,292	—
Mobile	Mobile segment	22,958	491	46,723	1,368
	Total	355,401	609	356,359	2,371

For the year ended December 31, 2019

Not applicable.

For the year ended December 31, 2020

Not applicable.

The Group Companies perform impairment testing of goodwill at least annually, regardless of whether there is any indication of impairment. Intangible assets with indefinite useful lives are not amortized; instead they are tested for impairment annually. The Group Companies individually determine the timing of the impairment test for goodwill and intangible assets with indefinite useful lives taking into consideration the timing of the formulation of the relevant business plan. Indications of impairment are also assessed every quarter; and if any such indication exists, impairment testing is performed.

When conducting an impairment test, the Group Companies, as a general rule, consider each company to be a CGU. A CGU is the smallest identifiable group of assets, which generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill is allocated to CGUs or groups of CGUs expected to benefit from synergies associated with business combinations.

As a result, in the Internet Services segment and the Mobile segment, goodwill was subject to monitoring for internal management purposes, due to the expectations for the segment to benefit from intercompany synergies. Accordingly, impairment testing is conducted for the group of CGUs at the operating segment level. Meanwhile, in the FinTech segment, impairment testing is conducted, as a general rule, with each company as a CGU, in light of the unique business environment of each company.

The recoverable amount of a CGU or a group of CGUs with allocated goodwill is the higher of a value in use and fair value less costs of disposal. On December 31, 2020, the recoverable amounts of all CGUs or groups of CGUs to which goodwill was allocated were determined with reference to their calculated values in use.

Value in use is calculated based on the business plans approved by management of each CGU or group of CGU, using pre-tax, estimated future cash flows for primarily three to five years

and other assumptions for a three to five year period. These business plans have been drawn up based primarily on gross merchandise sales in the Internet Services, the number of accounts and the number of registered members in the FinTech segment, and average revenue per user (ARPU) and the number of contracts in the Mobile segment. For periods beyond those covered by the business plans, the terminal value is assessed.

Terminal value is calculated using the estimated growth rate of each CGU or group of CGUs. Also the pre-tax discount rate used in the assessment of value in use is calculated for each CGU or group of CGUs.

The growth rates used in predicting cash flows for periods beyond those covered by the business plans of each CGU reflect the status of the country and the industry to which the CGU belongs and do not exceed the average long-term growth rate of the industry in which the CGU is active. Pre-tax discount rates used in calculating terminal value reflect the inherent risks of the relevant businesses of each CGU or group of CGUs. Discount rates are determined based on comparable companies of each CGU or group of CGUs, incorporating market interest rates, the size of the subsidiary comprising the CGU, and other factors.

Additionally, the business plan, which forms the basis for the measurement of the recoverable amount in the impairment tests of goodwill and intangible assets with indefinite useful lives, is compared with past performance and consideration is made as to whether the business plan is a reasonable basis for predicting future cash flows.

Significant assumptions used in the calculation of the recoverable amount as of December 31, 2019 and 2020 are as follows. The following estimates have been used in the analysis of each CGU or group of CGUs.

Operating segment	CGU or a group of CGUs	December 31, 2019		December 31, 2020	
		Growth rate	Discount rate	Growth rate	Discount rate
Internet Services	Internet Services segment	1.3%	6.5%	0.8%	8.1%
FinTech	Rakuten Bank, Ltd.	1.4%	7.8%	0.8%	5.9%
	Others	1.4%	5.4%-16.3%	0.8%	4.6%-16.3%
Mobile	Mobile segment	1.3%	14.4%	0.8%	12.2%

Sensitivity Analysis

The recoverable amounts of CGUs and groups of CGUs to which goodwill and intangible assets with indefinite useful lives have been allocated significantly exceed their carrying amounts, therefore the Group Companies judge that significant impairment is unlikely to occur for these CGUs and groups of CGUs, even if the major assumptions used in impairment testing were to change within a reasonably predictable range.

(3) Impairment of Intangible Assets (Except for Goodwill and Intangible Assets with Indefinite Useful Lives)

The Group Companies assess, at each reporting date, whether there is an indication that intangible assets (except for goodwill and intangible assets with indefinite useful lives) may be impaired. If any indication exists, the Group Companies estimate the recoverable amount of the asset.

In principle, the Group Companies estimate the recoverable amount for the individual asset, but if estimation of the recoverable amount of individual assets is not possible, an estimation of

the recoverable amount of the CGU to which the asset belongs is made. Idle assets for which future use is not anticipated are considered individually.

For the year ended December 31, 2019

In the Internet Services segment and the Mobile segment, impairment losses of ¥2,925 million and ¥756 million relating to intangible assets (except for goodwill and intangible assets with indefinite useful lives) were recorded, respectively.

For the year ended December 31, 2020

In the Internet Services segment and the Mobile segment, impairment losses of ¥4,614 million and ¥327 million relating to intangible assets (except for goodwill and intangible assets with indefinite useful lives) were recorded, respectively.

19. Deposits for Banking Business

The breakdown of deposits for banking business is as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Financial liabilities measured at amortized cost		
Demand deposits	¥2,565,702	¥4,213,787
Time deposits	595,046	502,375
Total financial liabilities measured at amortized cost	3,160,748	4,716,162
Total deposits for banking business	3,160,748	4,716,162

20. Financial Liabilities for Securities Business

The breakdown of Financial Liabilities for Securities Business

(Millions of Yen)

	December 31, 2019	December 31, 2020
Accounts payable relating to securities transactions	¥235,638	¥470,834
Margin transactions liabilities	149,300	143,955
Deposits received	953,951	1,222,263
Borrowings secured by securities	179,008	314,589
Guarantee deposits received	342,621	435,519
Others	127	67
Total financial liabilities for securities business	1,860,645	2,587,227

Financial liabilities for securities business are measured at amortized cost.

Derivative liabilities classified as held for trading are included in "Derivative liabilities."

21. Bonds and Borrowings

The schedule of bonds is as follows.

(Millions of Yen)				
Name	Type	Interest rate	December 31, 2019	December 31, 2020
Rakuten, Inc.	Rakuten, Inc. The 4th unsecured bond Currency: JPY Maturity: 5 years	0.13%	9,983	9,994
Rakuten, Inc.	Rakuten, Inc. The 5th unsecured bond Currency: JPY Maturity: 7 years	0.25%	9,971	9,979
Rakuten, Inc.	Rakuten, Inc. The 6th unsecured bond Currency: JPY Maturity: 3 years	0.09%	39,973	—
Rakuten, Inc.	Rakuten, Inc. The 7th unsecured bond Currency: JPY Maturity: 5 years	0.22%	29,930	29,958
Rakuten, Inc.	Rakuten, Inc. The 8th unsecured bond Currency: JPY Maturity: 7 years	0.32%	19,938	19,952
Rakuten, Inc.	Rakuten, Inc. The 9th unsecured bond Currency: JPY Maturity: 10 years	0.42%	9,956	9,962
Rakuten, Inc.	Rakuten, Inc. The 10th unsecured bond Currency: JPY Maturity: 3 years	0.08%	9,963	9,978
Rakuten, Inc.	Rakuten, Inc. The 11th unsecured bond Currency: JPY Maturity: 5 years	0.25%	9,855	9,865
Rakuten, Inc.	Rakuten, Inc. The 12th unsecured bond Currency: JPY Maturity: 7 years	0.35%	19,912	19,925
Rakuten, Inc.	Rakuten, Inc. The 13th unsecured bond Currency: JPY Maturity: 10 years	0.45%	19,899	19,909
Rakuten, Inc.	Rakuten, Inc. The 14th unsecured bond Currency: JPY Maturity: 15 years	0.90%	19,885	19,893
Rakuten, Inc.	Rakuten, Inc. The 1st subordinated bond Currency: JPY Maturity: 35 years	2.35%	139,057	139,298

Rakuten, Inc.		Rakuten, Inc. The 2nd subordinated bond Currency: JPY Maturity: 37 years	2.61%	22,771	28,811
Rakuten, Inc.		Rakuten, Inc. The 3rd subordinated bond Currency: JPY Maturity: 40 years	3.00%	12,882	12,895
Rakuten, Inc.		Rakuten, Inc. The 4th subordinated bond Currency: JPY Maturity: 35 years	1.81%	—	49,579
Rakuten, Inc.		Rakuten, Inc. The 5th subordinated bond Currency: JPY Maturity: 37 years	2.48%	—	19,827
Rakuten, Inc.		Rakuten, Inc. The 6th subordinated bond Currency: JPY Maturity: 40 years	3.00%	—	49,521
Rakuten, Inc.		Rakuten, Inc. The November 2024 maturity USD-denominated unsecured bond Currency: USD Maturity: 5 years	3.546%	85,784	82,006
Rakuten Co., Ltd.	Card	The 1st unsecured bond Currency: JPY Maturity: 3 years	0.14%	19,918	19,946
Rakuten Co., Ltd.	Card	The 2nd unsecured bond Currency: JPY Maturity: 5 years	0.30%	19,808	19,826
Rakuten Co., Ltd.	Card	The 3rd unsecured bond Currency: JPY Maturity: 7 years	0.42%	9,952	9,959
Rakuten Co., Ltd.	Card	The 4th unsecured bond Currency: JPY Maturity: 5 years	0.49%	—	29,835
Total bonds			—	509,437	620,918

All bonds are measured at amortized cost.

The nominal interest rates applied for each bond in the year ended December 31, 2019 or 2020 are stated in the “Interest rate” column, and they differ from the effective interest rates. During the year ended December 31, 2020, the Company issued the 4th subordinated bond of ¥50,000 million (interest rate: 1.81%, redemption: November 4, 2055), the 5th subordinated bond of ¥20,000 million (interest rate: 2.48%, redemption: November 4, 2057) and the 6th subordinated bond of ¥50,000 million (interest rate: 3.00%, redemption: November 4, 2060). Rakuten Card Co., Ltd. issued the 4th unsecured bond of ¥30,000 million (interest rate: 0.49%, redemption: December 23, 2025).

During the year ended December 31, 2020, the Company’s 6th unsecured bond of ¥40,000 million (interest rate: 0.09%, redemption: June 25, 2020) was redeemed.

The schedule of borrowings is as follows.

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Short-term debts	¥218,755	¥630,262
Long-term debts		
Floating-rate debts	522,068	353,530
Fixed-rate debts	292,336	562,747
Commercial paper	184,500	320,000
Total borrowings	1,217,659	1,866,539

All borrowings are measured at amortized cost.

The schedule of the maturity and interest rate of borrowings is as follows.

	December 31, 2019		December 31, 2020	
	Maturity	Interest rate	Maturity	Interest rate
Short-term debts	—	0.002%- 1.18%	—	0%- 1.18%
Long-term debts				
Floating-rate debts	3 years to 10 years	0.39227%- 4.88554%	1 year to 10 years	0.39909%- 4.90814%
Fixed-rate debts	3 years to 25 years	0%- 4%	1 year to 25 years	0%- 3%
Commercial paper	—	0.007%- 0.125%	—	0.007%- 0.350%

Maturities of short-term debts and commercial paper are less than one year, and thus the description is omitted.

The nominal interest rates applied for each borrowing are stated in the “Interest rate” column, and they differ from the effective interest rates. In addition, floating-rate debts includes the underlying hedged items of cash flow hedges where floating rate debts is swapped for fixed rate debt, and the interest rates stated in the “Interest rate” column incorporate the effect of the cash flow hedges.

Reconciliation of changes in liabilities relating to cash flows arising from financing activities
For the year ended December 31, 2019

(Millions of Yen)

	Liabilities		
	Borrowings	Bonds	Lease liabilities
January 1, 2019	¥925,110	¥309,033	¥6,456
Changes in cash flows from financing and repayments			
Net increase (decrease) in short-term borrowings	107,701	—	—
Increase (decrease) in commercial papers	18,500	—	—
Proceeds from long-term debts	494,121	—	—
Repayment of long-term debts	(324,166)	—	—
Proceeds from issuance of bonds	—	216,656	—
Redemption of bonds	—	(20,000)	—
Repayment of lease liabilities	—	—	(17,577)
Payment of transaction costs relating to borrowings, etc.	(3,316)	(1,140)	—
Total changes from financing cash flows	292,840	195,516	(17,577)
Cumulative impact from change in accounting policies	—	—	91,420
Non-fund transactions			
Changes as a result of gaining or losing control of a subsidiary or another business	(1,287)	—	6
Changes due to increases in right-of-use assets	—	—	106,721
Impact of changes in foreign currency exchange rates	(70)	(376)	(202)
Interest expenses	1,066	264	—
Other changes	—	5,000	(6,312)
December 31, 2019	1,217,659	509,437	180,512

For the year ended December 31, 2020

(Millions of Yen)

	Liabilities		
	Borrowings	Bonds	Lease liabilities
January 1, 2020	¥1,217,659	¥509,437	¥180,512
Changes in cash flows from financing and repayments			
Net increase (decrease) in short-term borrowings	411,279	—	—
Increase (decrease) in commercial papers	135,500	—	—
Proceeds from long-term debts	424,590	—	—
Repayment of long-term debts	(324,141)	—	—
Proceeds from issuance of bonds	—	150,000	—
Redemption of bonds	—	(40,000)	—
Repayment of lease liabilities	—	—	(34,476)
Payment of transaction costs relating to borrowings, etc.	—	(1,100)	—
Total changes from financing cash flows	647,228	108,900	(34,476)
Non-fund transactions			
Changes as a result of gaining or losing control of a subsidiary or another business	35	—	575
Changes due to increases in right-of-use assets	—	—	140,024
Impact of changes in foreign currency exchange rates	192	(3,920)	(323)
Interest expenses	1,425	501	—
Other changes	—	6,000	(5,552)
December 31, 2020	1,866,539	620,918	280,760

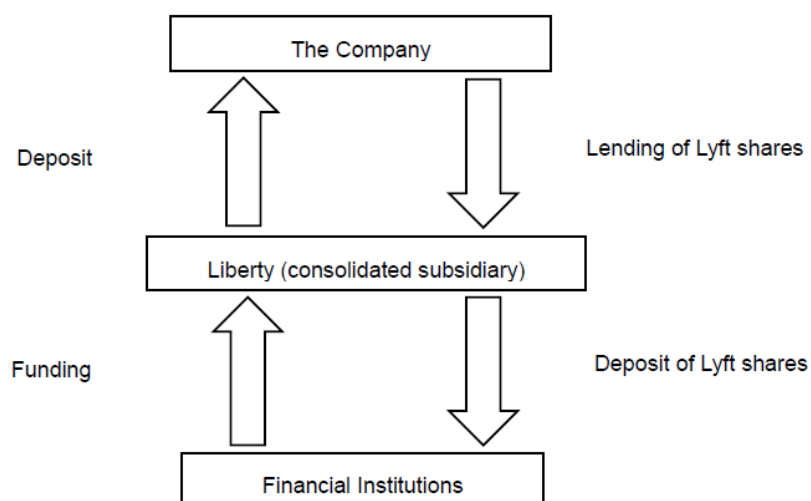
22. Other Financial Liabilities

The breakdown of other financial liabilities is as follows.

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Financial liabilities measured at amortized cost		
Other payables	¥350,782	¥462,634
Accrued expenses	35,239	43,587
Deposits received	112,016	123,192
Margin deposits received	10,221	13,694
Guarantee deposits received (Note)	115,965	188,828
Lease liabilities	180,512	280,760
Others	12,853	15,748
Total financial liabilities measured at amortized cost	817,588	1,128,443
Financial liabilities measured at fair value through net income		
Securities borrowed	789	—
Other	2,063	3,062
Total financial liabilities measured at fair value through net income	2,852	3,062
Total other financial liabilities	820,440	1,131,505

(Note) Prepaid Variable Share Forward Transactions of Lyft shares

During the year ended December 31, 2020, the Company concluded a master contract with financial institutions through its subsidiary, Liberty Holdco Ltd. (hereinafter “Liberty”), for a forward contract concerning all 31,395,679 of the Lyft shares held by the Company and in return, obtained 714 million U.S. dollars in this financing. When the five-year contract matures, Liberty can choose to settle the deal in either cash or Lyft shares. The Company lent Liberty the Lyft shares and accepted cash from Liberty as a deposit receivable. In addition to the above financing, we have reduced risk associated with price fluctuations of our investments in the share of Lyft by agreeing on a separate collar



transaction that sets cap and floor.

During the year ended December 31, 2020, the liabilities associated with the financing using Lyft shares have been recognized as liabilities measured at amortized cost in the amount of ¥72,189 million in other financial liabilities, and the derivative contract of Lyft shares as ¥65,513 million in derivative liabilities.

Additionally, during the year ended December 31, 2020, the difference in fair value valuation arising from the fair value measurement of Lyft shares has been recognized as ¥56,980 million in financial income, the amortized cost incurred from the liabilities associated with the financing using Lyft shares as ¥82 million in financial expenses, and the difference in fair value associated with the derivative contract of Lyft shares as ¥63,903 million in financial expenses.

23. Provisions

(1) Schedule of Changes in Provisions

	(Millions of Yen)		
	Provision for customer points	Others	Total
January 1, 2019	¥84,242	¥6,274	¥90,516
Increases during the period (provisions made)	104,540	1,600	106,140
Increases during the period (others)	—	2,314	2,314
Decreases during the period (provisions used)	(85,742)	(729)	(86,471)
Decreases during the period (others)	(842)	(1,812)	(2,654)
December 31, 2019	102,198	7,647	109,845
Increases during the period (provisions made)	149,703	9,345	159,048
Increases during the period (others)	53	293	346
Decreases during the period (provisions used)	(103,331)	(308)	(103,639)
Decreases during the period (others)	(1,860)	(1,161)	(3,021)
December 31, 2020	146,763	15,816	162,579

(2) Provision for Customer Points

The Group Companies operate point programs, including the Rakuten Points program, for the purpose of promoting members' transactions within the Group Companies, whereby members are granted points for their purchase of goods at Rakuten Ichiba shops, use of services such as Rakuten Travel, use of Rakuten Card, various membership registrations within the Group Companies and customer referrals. Members are able to exchange accumulated points for products and services, obtain discounts, or transfer their points to point programs of other companies. Points have an expiry date and once they expire a member forfeits the right to use them.

In anticipation of the future use of such points by members, the Group Companies recorded a provision for customer points at an estimated amount based on historical experience. These are estimates and there is an inherent uncertainty regarding the extent of usage of such points by members.

(3) Other Provisions

Other provisions include asset retirement obligations and provision for loss on interest repayments.

These provisions are attributable to transactions in the ordinary course of business, and, are not individually significant.

24. Insurance Business Policy Reserves

(1) The breakdown and changes in policy reserves for insurance business

The breakdown of policy reserves for insurance business is as follows.

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Reserve for outstanding claims	¥26,897	¥23,615
Liability reserves	291,193	261,721
Total policy reserves for insurance business	318,090	285,336

Under the funding method for Insurance liabilities reserves, reserve balances reflect the market interest rate. Insurance liability reserves are discounted by the amount of future cash flows which is determined using the market interest rate.

Changes in policy reserves for insurance business are as follows.

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Balance at the beginning of the year	¥334,536	¥318,090
Life insurance business		
Insurance premium (net) (Note 1)	18,361	19,713
Insurance claims and other payments	(9,474)	(9,536)
Market interest rate changes	3,920	(2,891)
Other changes (Note 2)	(8,193)	(8,818)
General insurance business, etc.		
Insurance revenue, etc.	58,416	47,325
Elapsed policy period of insurance	(50,326)	(44,720)
Insured events	39,834	27,305
Insurance claims and other payments	(70,442)	(60,467)
Market interest rate changes	1,203	(821)
Other changes (Note 2)	255	156
Balance at the end of the year	318,090	285,336

(Notes) 1 The amount is calculated by deducting costs allocated to the operation of the insurance business from insurance revenue, etc.

2 The amount includes interest on liability reserves, mortality gain, etc.

Estimated timing of net cash outflows deriving from policy reserves at the end of the current fiscal year are as follows.

(Millions of Yen)

	Total	One year or less	Over one year to three years	Over three years to five years	Over five years
Life insurance business	¥25,682	¥2,655	¥667	¥1,068	¥21,292
General insurance business					
Before risk mitigation through reinsurance	259,654	60,941	81,314	40,604	76,795
After risk mitigation through reinsurance	203,339	48,962	74,321	32,117	47,939

Net cash outflow is calculated based on the remaining insurance period at the end of the current fiscal year.

(2) The breakdown and changes in policy reserves (reinsured portion) for insurance business

The breakdown of policy reserves (reinsured portion) for insurance business is as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Reserve for outstanding claims	¥9,429	¥9,007
Liability reserves	45,558	47,325
Total policy reserves for insurance business	54,987	56,332

Under the funding method for Insurance liabilities reserves, reserve balances reflect the market interest rate. Insurance liability reserves are discounted by the amount of future cash flows which is determined using the market interest rate.

Changes in policy reserves (reinsured portion) for insurance business are as follows.

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Balance at the beginning of the year	¥57,423	¥54,987
General insurance business, etc.		
Insurance revenue, etc.	15,315	18,819
Elapsed policy period of insurance	(16,751)	(16,796)
Insured events	17,480	12,896
Insurance claims and other payments	(19,070)	(13,317)
Market interest rate changes	590	(266)
Other changes	—	9
Balance at the end of the year	54,987	56,332

(3) Gains and losses recognized in net income on buying reinsurance, and deferred amounts

Gains and losses recognized in net income on buying reinsurance, and deferred amounts are as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Reinsurance commission	¥815	¥719
Net reinsurance premium	(15,302)	(17,140)
Deferred reinsurance commission	470	352

(Note) Reinsurance commission, net insurance premium and deferred reinsurance commission are accounted for as operating expense, operating income and intangible asset, respectively.

Changes in deferred gains and losses recognized in net income on buying reinsurance contracts are as follows.

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Balance at the beginning of the year	¥412	¥470
General insurance business		
Recognized during the current fiscal year	1,744	1,602
Amortized	(1,686)	(1,720)
Balance at the end of the year	470	352

(4) Changes in deferred acquisition cost for insurance business

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Balance at the beginning of the year	¥8,035	¥9,664
Life insurance business		
Recognized during the current fiscal year	846	601
Amortized	(251)	(233)
General insurance business, etc.		
Recognized during the current fiscal year	7,519	5,269
Amortized	(6,485)	(5,081)
Balance at the end of the year	9,664	10,220

(5) Liability Adequacy Test for Insurance Contracts

The Group Companies perform a liability adequacy test for insurance contracts taking into consideration estimated present value of cash inflows, such as related insurance premiums and investment income, and cash outflows, such as insurance claims and benefits and operating expenses. As a result of testing, the amount of the liability was considered to be adequate, and no additional recognition of liability and expense was recognized.

(6) Risk Management System Related to Insurance Contracts

For sound and appropriate insurance business operations, it is important to accurately comprehend and adequately manage increasingly diversified and complex risks. Therefore, a cross-organizational risk management framework was developed, and the role and process at departments responsible for risk management were clarified. The Group Companies ensure appropriate business operations by having all employees and officers fully understand the importance of risk management. Specifically, the Group Companies established a cross-organizational "Risk Management Committee," and undertake the following overall risk management activities: appointing departments responsible for risk management according to the type of risk; developing a risk management framework; comprehending, analyzing and assessing risk status; and instructing operational departments.

1) Insurance Risk

Concerning the life insurance business, the Group Companies have identified and analyzed risks through regular monitoring of the frequency of insured events and surrender ratio. In developing new products, risk analysis is carried out in consideration of an appropriate balance with profitability.

Concerning the general insurance business, while monitoring loss ratio and cost ratio, the Group Companies control risks through portfolio management, active review and renewal of products, adopting stringent contract acceptance and establishing effective reinsurance scheme.

In arranging reinsurance, the Group Companies consider the certainty in recovery as the primary factor and select highly creditable insurance firms that meet certain standards as a reinsurance destination.

Under Japanese laws and regulations, insurance companies are required to calculate risks associated with payments of insurance claims and benefits and risks associated with asset management in preparation for the occurrence of various risks to which insurance companies are exposed on a scale beyond a normally predictable level. The amounts equivalent to risks before tax are as follows, which are recognized as representing the impact on the Consolidated Statements of Income in the event of occurrence of such risks. The confidence level of risk quantity is generally assumed to be 95%, with variance depending on the type of risk.

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Insurance risk impact amount	¥5,823	¥5,771
Third-sector insurance risk impact amount	975	1,046
Product crediting rate risk impact amount	675	615
Minimum guarantee risk impact amount	—	—
Investment risk impact amount	13,725	8,110
Business risk impact amount	429	430

(a) Sensitivity to insurance risk

In life insurance business, policy reserves are recorded based on the estimated present value of all cash flows derived from insurance contracts by using the assumptions at the initial recognition. Material assumptions in life insurance business include discount rate (interest rate), mortality, morbidity, renewal ratio, operating cost and commissions. In the case where increases in mortality, morbidity, operating cost or commissions are expected, future net income and capital are expected to decrease through an increase in future cash out flows.

In general insurance business, in order to cover future liabilities associated with insurance contracts, policy reserves are recorded based on the assumptions at the initial recognition. Material assumptions in general insurance business include loss ratio, or cost ratio. In the case where increase in loss ratio is predicted, future net income and capital are expected to decrease through an increase in future cash out flows.

There were no changes in the aforementioned assumptions that may have significant impact on the Consolidated Financial Statements for the current fiscal year.

(b) Concentrations of insurance risk

The Group Companies' insurance portfolio is well distributed geographically, thus is not exposed

to excessive concentrations of insurance risk.

(c) Actual claims compared with previous estimates (claims development)

Claims development in general insurance business is as follows.

(Millions of Yen)

	Year of contract				
	2016	2017	2018	2019	2020
Cumulative paid insurance and reserve for outstanding claims					
At the end of the year of contract	¥1,293	¥1,091	¥905	¥794	¥703
After one year	4,850	4,304	3,516	2,783	—
After two years	6,317	5,549	4,334	—	—
After three years	6,334	5,377	—	—	—
After four years	6,116	—	—	—	—
Final loss estimation	6,116	5,377	4,334	2,783	703
Cumulative paid insurance	5,796	4,381	2,857	1,102	103
Reserve for outstanding claims	320	996	1,477	1,681	600

Above claims development shows cumulative paid insurance and reserve for outstanding claims of the compulsory automobile liability insurance contracts for which the interval between the accident and the insurance payment is expected to be long.

2) Liquidity risk

For the purpose of liquidity risk management, the Group Companies endeavor to manage cash flows adequately through collecting and analyzing information regarding new policy, cancellation and fund movement at maturity, and to be prepared to provide funds against potential catastrophic loss, while monitoring trading environment at all times to ensure smooth asset liquidation for raising funds when needed.

3) Market risk

Certain subsidiaries operating insurance business under the Group manage their market risks such as foreign exchange risk, interest rate risk and price fluctuation risk, by measuring and managing the risk quantity using VaR as indicator, after establishing specific maximum risk tolerance limits, while closely grasping the outstanding assets under management along with unrealized gain or loss. Calculation of VaR is based on historical simulation method (holding period: six months, confidence interval: 99%), whereby the total market risk is measured at ¥15,106 million as of December 31, 2019. Similarly, the total market risk is measured at ¥6,252 million as of December 31, 2020. VaR is a measurement of market risk assuming certain probability of occurrence of fluctuations calculated statistically based on the past market fluctuations, and may not be able to capture the risks under extreme market volatility beyond normal expectations.

25. Employee benefits

The Group Companies mainly adopt the defined benefit system as their retirement benefit system.

The Group Companies have a defined-benefit retirement benefit plan consisting mainly of a lump sum severance payment plan. The Group Companies directly assume payment obligations to the beneficiaries rather having the plan externally funded. There are no legal requirements regarding the funding of the plan. Lump sum severance payments are made in accordance with the retirement benefits provisions of the rules of each company, including the Employment Regulations and on the basis of the employee's salaries, years of service and other factors.

(1) Amounts recognized in the Consolidated Statements of Financial Position

Amounts recognized in the Consolidated Statements of Financial Position are as follows.

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Present value of defined benefit obligations	¥11,643	¥19,558
Fair value of plan assets	269	286
Net amount of employee retirement benefit liabilities recognized in Consolidated Statements of Financial Position	11,374	19,272

(2) Changes in present value of defined benefit obligations

Details of the changes in present value of defined benefit obligations are as follows.

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Present value of defined benefit obligations (at beginning of period)	¥5,453	¥11,643
Service cost	5,303	7,627
Interest cost	28	39
Remeasurement of defined benefit obligations		
Actuarial gains and losses arising from changes in demographic assumptions	5	193
Actuarial gains and losses arising from changes in financial assumptions	246	(50)
Other revisions	1,006	1,291
Past service cost	—	(377)
Benefit paid	(337)	(864)
Effect of business combination and disposal	(58)	—
Others	(3)	56
Present value of defined benefit obligations (at end of period) (Note)	11,643	19,558

(Note) The weighted average duration of the defined benefit obligation for the fiscal years ended December 31, 2019 and 2020 was 11.3 years and 10.5 years, respectively.

(3) Actuarial assumptions

Significant actuarial assumptions (weighted averages) are as follows.

	December 31, 2019	December 31, 2020
Discount rate	0.38%	0.47%

(4) Sensitivity analysis

The sensitivity analysis of significant actuarial assumptions is as follows.

In the calculation of defined benefit obligations in the sensitivity analysis, the same method of calculation as that used to calculate the defined benefit obligations recognized in the Consolidated Statements of Financial Position was used. Sensitivity analysis is conducted on the reporting date based on changes in the relevant actuarial assumption that were reasonably possible at that date. Additionally, while the sensitivity analysis assumes that all actuarial assumption other than those subject to the sensitivity analysis will remain constant, in actual practice, there is a possibility that it may be affected by changes in other actuarial assumptions.

		(Millions of Yen)	
		December 31, 2019	December 31, 2020
Discount rate	In the case of 0.5% increase	¥(580)	¥(955)
	In the case of 0.5% decrease	631	1,037

26. Income Tax Expense

The deferred tax assets and liabilities include the following:

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Deferred tax assets		
Tax losses carried forward	¥44,895	¥95,472
Allowance for doubtful accounts	22,406	20,552
Provision for customer points	31,152	44,878
Others	44,966	46,232
Total	143,419	207,134
Deferred tax liabilities		
Intangible assets	(16,738)	(26,881)
Assets arising from contract costs	(21,739)	(24,199)
Others	(26,838)	(31,771)
Total	(65,315)	(82,851)
Net amount of deferred tax assets		
Deferred tax assets	80,153	126,203
Deferred tax liabilities	(2,049)	(1,920)
Net	78,104	124,283

In the year ended December 31, 2020, the deferred tax assets recognized for tax losses carried forward were primarily those recognized by the Company's subsidiary, Rakuten Mobile, Inc. Although Rakuten Mobile, Inc. launched voice calling and data transmission services (hereinafter "telephone and telecommunications services") on a full scale as an MNO (Mobile Network Operator) on April 8, 2020, it is expanding its own network ahead of schedule, which has resulted in tax losses carried forward due to an increase in depreciation and other operating expenses.

Because the Group Companies have adopted the consolidated taxation system in Japan, the income of each company in the consolidated taxation group can be used to recover a portion of the tax losses carried forward, and the Group Companies are expected to earn taxable income in the future from telephone and telecommunications services. Based on these assumptions, deferred tax assets were recognized within the scope of estimated future taxable income based on the business plans approved by management.

The deferred tax assets recognized for tax losses carried forward in companies outside the consolidated taxation group were also recognized within the scope of estimated future taxable income based on the business plans approved by management.

The changes in net deferred tax assets and liabilities were as follows:

For the year ended December 31, 2019

(Millions of Yen)

	January 1, 2019	Cumulative impact from change in accounting policies	Recognized in net income	Recognized in other comprehensive income	Changes in scope of consolidation	Others	December 31, 2019
Tax losses carried forward	¥38,168	¥—	¥7,368	¥(641)	¥—	¥—	¥44,895
Allowance for doubtful accounts	22,731	—	(325)	—	—	—	22,406
Provision for customer points	25,649	—	5,503	—	—	—	31,152
Intangible assets	(28,105)	—	11,097	270	—	—	(16,738)
Assets arising from contract costs	(19,823)	—	(1,916)	—	—	—	(21,739)
Others	(1,630)	686	16,525	1,812	(162)	897	18,128
Total	36,990	686	38,252	1,441	(162)	897	78,104

For the year ended December 31, 2020

(Millions of Yen)

	January 1, 2020	Cumulative impact from change in accounting policies	Recognized in net income	Recognized in other comprehensive income	Changes in scope of consolidation	Others	December 31, 2020
Tax losses carried forward	¥44,895	¥—	¥51,498	¥(921)	¥—	¥—	¥95,472
Allowance for doubtful accounts	22,406	—	(1,854)	—	—	—	20,552
Provision for customer points	31,152	—	13,726	—	—	—	44,878
Intangible assets	(16,738)	—	(10,993)	850	—	—	(26,881)
Assets arising from contract costs	(21,739)	—	(2,460)	—	—	—	(24,199)
Others	18,128	—	(5,872)	3,481	(813)	(463)	14,461
Total	78,104	—	44,045	3,410	(813)	(463)	124,283

The breakdown (tax basis) of deductible temporary differences, tax losses carried forward for which no deferred tax asset is recognized in the Consolidated Statements of Financial Position is as follows:

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Deductible temporary differences	¥3,020	¥35,393
Unused tax losses carried forward	44,343	92,280
Total	47,363	127,673

Deferred tax assets associated with the above are not recognized, as it is unlikely that future taxable income necessary for the Group Companies to utilize their benefits would be generated.

Tax losses carried forward for which no deferred tax asset is recognized in the Consolidated Statements of Financial Position, if unutilized, will expire as follows. There are no deductible temporary differences with an expiry date.

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
One year or less	¥213	¥313
Over one year to five years	1,426	1,648
Over five years	42,704	90,319
Total	44,343	92,280

In addition to the above the total amount of deductible temporary differences relating to investments in subsidiaries, associates and joint arrangements that are not recognized as deferred tax assets were ¥493,266 million, as of December 31, 2020 (¥291,882 million as of December 31, 2019).

Additionally, the total amount of taxable temporary differences relating to investments in subsidiaries that are not recognized as deferred tax liabilities were ¥468,630 million, as of December 31, 2020 (¥378,586 million as of December 31, 2019). There will be no significant impact on the Group Companies' tax payment, even if the retained earnings of the subsidiaries or associates are remitted to the Group Companies in the future.

Breakdown of income tax expense recognized through net income is as follows:

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Current tax expense		
Income tax expense for net income	¥26,762	¥8,867
Subtotal	26,762	8,867
Deferred tax expense (Note 2)		
Generation and reversal of temporary difference	(28,438)	7,534
Changes in unused tax losses carried forward	(7,368)	(51,498)
Impact of changes in tax rates, etc. due to tax reform	(2,446)	(81)
Subtotal	(38,252)	(44,045)
Total income tax expense	(11,490)	(35,178)

(Notes) 1 The Company is mainly subject to income taxes, inhabitant tax and business tax treated as deductible expenses, and the statutory tax rate calculated based on these taxes was 30.6% for the previous fiscal year and the current fiscal year.

2 Deferred tax expense includes the deferred tax expense incurred as a result of the write-down of deferred tax assets and the reversal of write-downs recognized in prior years. Deferred tax expense as a result of the above was ¥(17,079) million and ¥3,267 million for the previous fiscal year and the current fiscal year, respectively.

Reconciliations between the statutory tax rates in Japan and effective tax rates on income tax expense presented in the Consolidated Statements of Income are as follows:

(%)

	Year ended December 31, 2019	Year ended December 31, 2020
Statutory tax rate in Japan	30.6	30.6
(Reconciliations)		
Permanent non-deductible items	(4.2)	(1.5)
Permanent non-taxable items	6.7	2.9
Impact of changes in tax rates, etc. due to tax reform	5.5	0.1
Effect due to recoverability of deferred tax assets	39.8	(9.3)
Differences due to statutory tax rate of subsidiaries (Note)	17.1	8.1
Effect of temporary differences associated with investments in subsidiaries	7.1	(0.5)
Share of income (loss) of associates and joint ventures	(76.9)	(7.6)
Others	0.1	0.5
Effective tax rate on income tax expense	25.8	23.3

(Note) The difference is due to difference in the statutory tax rate of Japan, where the Company is resident, and that of the other jurisdictions where certain subsidiaries are resident.

27. Common Stock, Capital Surplus, Retained Earnings and Treasury Stock

Common Stock

Schedule of shares authorized to be issued and total number of shares issued.

	(Thousands of shares)	
	Total number of authorized shares (Common stock with no par value)	Total number of shares issued (Common stock with no par value)
January 1, 2019	3,941,800	1,434,574
Changes during the period: Increase due to issuance of common stock	—	—
December 31, 2019	3,941,800	1,434,574
Changes during the period: Increase due to issuance of common stock	—	—
December 31, 2020	3,941,800	1,434,574

Capital Surplus

The Companies Act of Japan (hereinafter referred to as the “Companies Act”) requires that at least 50% of the proceeds of certain issues of common shares be credited to common stock, while the remainder of the proceeds be credited to capital reserve included in capital surplus. The Companies Act permits, upon approval at the General Shareholders’ Meeting, the transfer of amounts from capital reserve to common stock.

Retained Earnings

The Companies Act requires that an amount equal to 10% of dividends of retained earnings be appropriated as capital reserve (within capital surplus) or as legal reserve (within retained earnings) until the aggregate amount of the capital reserve and the legal reserve equals to 25% of common stock. The legal reserve may be used to eliminate or reduce a deficit or be transferred to retained earnings upon approval at the General Shareholders’ Meeting.

Retained earnings available for dividends under the Companies Act are based on the amount recorded in the Company’s general accounting records prepared in accordance with JGAAP.

Treasury Stock

Schedule of Changes in Treasury Stock

	(Thousands of shares)	
	Year ended December 31, 2019	Year ended December 31, 2020
January 1	82,556	78,319
Acquisition	—	—
Disposal	4,237	6,246
December 31	78,319	72,073

28. Revenue

(1) The Breakdown of Revenue

1) Revenue Arising from Contracts with Customers and Other Sources

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Revenue arising from contracts with customers	¥991,815	¥1,138,292
Revenue arising from other sources	272,117	317,246
Total	1,263,932	1,455,538

(Note) Revenue arising from other sources includes interest and dividend income and other such income recognized in accordance with IFRS 9 and insurance revenues recognized in accordance with IFRS 4.

2) Relationship between Breakdown of Revenue and Segment Revenue

For the year ended December 31, 2019

(Millions of Yen)

		Segment			
		Internet Services	FinTech	Mobile	Total
Main service lines	Rakuten Ichiba and Rakuten Travel	¥270,674	¥—	¥—	¥270,674
	Rakuten 24 (former Soukai Drug and Kenko.com)	73,976	—	—	73,976
	Rakuten Rewards	96,499	—	—	96,499
	Rakuten Books	44,854	—	—	44,854
	OverDrive	29,561	—	—	29,561
	Rakuten Card	—	168,085	—	168,085
	Rakuten Bank	—	72,045	—	72,045
	Rakuten Securities	—	52,906	—	52,906
	Rakuten General Insurance	—	34,505	—	34,505
	Rakuten Life Insurance	—	32,876	—	32,876
	Rakuten Mobile	—	—	80,462	80,462
	Others (Note 2)	195,257	38,017	74,215	307,489
	Total	710,821	398,434	154,677	1,263,932
	Revenue arising from contracts with customers	710,676	126,462	154,677	991,815
	Revenue arising from other sources	145	271,972	—	272,117

(Notes) 1. Amounts are after eliminations of intercompany transactions.

2. To enhance collaboration and synergy between businesses and subsidiaries that operate digital content sites, etc., and “Rakuten Mobile” services, some businesses and subsidiaries have been transferred to other segments from the fiscal year ended December 31, 2020. The main change was made to subsidiaries that operate digital content sites, including Rakuten Kobo Inc. in the Internet Services segment, which were transferred to the Mobile segment. The amount of “Others” for the previous fiscal year has been restated accordingly.

For the year ended December 31, 2020

(Millions of Yen)

		Segment			
		Internet Services	FinTech	Mobile	Total
Main service lines	Rakuten Ichiba and Rakuten Travel	¥310,940	¥—	¥—	¥310,490
	Rakuten 24 (former Soukai Drug and Kenko.com)	85,856	—	—	85,856
	Rakuten Rewards	78,598	—	—	78,598
	Rakuten Books	52,660	—	—	52,660
	OverDrive	17,937	—	—	17,937
	Rakuten Card	—	183,480	—	183,480
	Rakuten Bank	—	76,855	—	76,855
	Rakuten Securities	—	66,197	—	66,197
	Rakuten General Insurance	—	54,801	—	54,801
	Rakuten Life Insurance	—	37,797	—	37,797
	Rakuten Mobile	—	—	125,306	125,306
	Others	246,136	45,625	73,350	365,111
	Total	792,127	464,755	198,656	1,455,538
	Revenue arising from contracts with customers	792,127	147,509	198,656	1,138,292
	Revenue arising from other sources	0	317,246	—	317,246

(Note) Amounts are after eliminations of intercompany transactions.

Interest and dividend income and other such income are recorded as revenue in accordance with IFRS 9, and proceeds from the insurance business are also recorded as revenue in accordance with IFRS 4.

For the year ended December 31, 2019, Rakuten Card, Rakuten Bank and Rakuten Securities recorded revenue of ¥124,728 million, ¥52,508 million and ¥23,735 million, respectively, in accordance with IFRS 9. Rakuten General Insurance and Rakuten Life Insurance recorded revenue of ¥26,187 million and ¥31,252 million, respectively, in accordance with IFRS 4.

For the year ended December 31, 2020, Rakuten Card, Rakuten Bank and Rakuten Securities recorded revenue of ¥137,444 million, ¥53,970 million and ¥24,487 million, respectively, in accordance with IFRS 9. Rakuten General Insurance and Rakuten Life Insurance recorded revenue of ¥45,713 million and ¥37,580 million, respectively, in accordance with IFRS 4.

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

Internet Services

With regard to the Internet Services segment, the Group Companies engage in EC businesses such as Rakuten Ichiba, Rakuten Travel, Rakuten Rewards, Rakuten Books, Rakuten 24 (former Soukai Drug and Kenko.com), OverDrive and a variety of other Internet businesses. The primary revenues in the Internet Services segment are described below.

Rakuten Ichiba and Rakuten Travel

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

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

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

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

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

Rakuten Rewards

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

Rakuten Books, Rakuten 24 (former Soukai Drug and Kenko.com)

In the Internet Services segment, when the Group Companies provide goods mainly for Rakuten users of Internet shopping sites, such as Rakuten Books and Rakuten 24 (former Soukai Drug and Kenko.com), the Group Companies are the principal in the sales contracts. In these direct selling services, revenue is recognized when goods are delivered to the customer. In addition, payments are received approximately within two months after the delivery of goods when performance obligations are satisfied. For Japanese book sales through Rakuten Books, revenues are recognized on a net basis after deducting costs of sales, because the role of the Group Companies in these transactions has the nature of an agent given the resale price maintenance system in Japan.

OverDrive

With regard to OverDrive, the Group Companies provide contents distribution services, including e-books and audio books for libraries and educational institutions. The Group Companies have obligations based on agreements with libraries, which are the main customers, to distribute contents and provide services relating to hosting and customer support. In terms of the distribution of contents, performance obligations are considered to be satisfied at the point of purchase of the contents by the libraries, and thus the revenue is recognized at that point. Payments relating to such performance obligations are received approximately within two months since the invoices are sent. Performance obligations with respect to services relating to hosting and customer support are satisfied over the contract term as time passes, and the revenue is recognized evenly over the

contract term in which such performance obligations are satisfied. Furthermore, consideration for a transaction is received each year in the form of advance payment prior to the satisfaction of performance obligations. OverDrive Holdings, Inc. was disposed of due to the transfer of its all shares during the second quarter ended June 30, 2020.

FinTech

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

Rakuten Card

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

Rakuten Bank

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

Rakuten Securities

With regard to Rakuten Securities, the Group Companies engage in financial instruments transaction services and other associated services. Sources of revenue include commissions arising from these transactions, net trading gains, and interest, etc. There is a wide range of financial instruments transactions, including domestic stock transactions, foreign stock transactions, sales of investments, and the commission structure for each transaction differs. For

brokerage transactions, margin transactions and sales of investments, performance obligations are satisfied when trades are completed on the trade date or other appropriate date, therefore revenues arising from brokerage transactions are recognized at that point in time. Commissions from spot transactions of shares are received within two business days in principle after the satisfaction of the performance obligations, while commissions from margin transactions and future transactions are received approximately within the period from six months to one year during which open contracts are settled. The Group Companies record net revenue based on fair value on foreign exchange margin transactions, and income received on open contracts of domestic margin transactions, in accordance with IFRS 9.

Rakuten General Insurance

Rakuten General Insurance mainly sells fire insurance and automobile insurance. Its main source of revenue is insurance revenue paid by the policyholders and interest on marketable securities. Revenue from insurance premiums paid by policy holders calculated by using the rate stipulated in the respective contract is recognized in accordance with IFRS 4. Also, interest income is recognized as revenue over the period in accordance with IFRS 9.

Rakuten Life Insurance

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

Mobile

With regard to the Mobile segment, the Group Companies engage in businesses such as Rakuten Mobile, recognizing revenues primarily as follows.

Rakuten Mobile

Rakuten Mobile is an MVNO (Mobile Virtual Network Operator) that uses the networks of an MNO (Mobile Network Operator), as well as an MNO that has launched full-scale services on April 8, 2020. As such, it is mainly engaged in the provision of voice calling and data transmission services (hereinafter “telephone and telecommunications services”) and sales of mobile handsets. For telephone and telecommunications services, maintaining utilizable telephone and telecommunications circuits for users at all times and providing the services using such circuits based on contracts are identified as performance obligations. For the handset sales, a delivery is identified as a performance obligation. When multiple services are provided in a single package, the consideration received from users is divided by the stand-alone selling price and allocated to each performance obligation. The performance obligation for maintaining utilizable telephone and telecommunications circuits is satisfied over the period, and the performance obligation for providing the telephone and telecommunications services is satisfied when the circuits are utilized. Therefore, revenues arising from providing the circuits are recognized over the contract term. For provision of telephone and telecommunications services, subscriber fees according to the actual usage of the circuits are recognized on a monthly basis. For the handset sales, the performance

obligation is satisfied when a mobile handset is delivered to the user and the line is opened, and thus related revenues are recognized at that point. Payments for both performance obligations are received approximately within two months from the billing date.

(2) Accounts arising from contracts

The breakdown of the balance of contracts of the Group Companies is as follows:

For the year ended December 31, 2019

	(Millions of Yen)	
	January 1, 2019	December 31, 2019
Receivables arising from contracts with customers (Note 1)		
Notes and accounts receivable — trade	¥181,026	¥222,485
Accounts receivable based on installment contracts, etc. (Note 2)	1,327,181	1,655,138
Other financial assets	122,271	154,765
Total	1,630,478	2,032,388
Contract liabilities	19,193	19,234

(Notes) 1. The amount of Impairment loss recognized from “Receivables arising from contracts with customers” are Accounts receivable ¥2,870 million and “Loans for credit card business” ¥11,677 million.

2. This represents accounts receivable arising from the use of credit cards by customers based on installment contracts, etc., which are recorded under “Loans for credit card business” in the Consolidated Statements of Financial Position. Such accounts receivable include commissions received by the Group Companies.

Of the revenues recognized in the previous fiscal year, ¥16,961 million was included in the balance of contract liabilities as of January 1, 2019. In addition, the amount of revenues recognized during the previous fiscal year from the performance obligations satisfied (or partially satisfied) in the past periods was immaterial.

For the year ended December 31, 2020

	(Millions of Yen)	
	January 1, 2020	December 31, 2020
Receivables arising from contracts with customers (Note 1)		
Notes and accounts receivable — trade	¥222,485	¥243,886
Accounts receivable based on installment contracts, etc. (Note 2)	1,655,138	1,880,374
Other financial assets	154,765	332,222
Total	2,032,388	2,456,482
Contract liabilities	19,234	14,725

- (Notes) 1. The amount of Impairment loss recognized from “Receivables arising from contracts with customers” are Accounts receivable of ¥3,079 million and “Loans for credit card business” of ¥12,358 million, respectively.
2. This represents accounts receivable arising from the use of credit cards by customers based on installment contracts, etc., which are recorded under “Loans for credit card business” in the Consolidated Statements of Financial Position. Such accounts receivable include commissions received by the Group Companies.

Of the revenues recognized in the current fiscal year, ¥13,094 million was included in the balance of contract liabilities as of January 1, 2020. In addition, the amount of revenues recognized during the current fiscal year from the performance obligations satisfied (or partially satisfied) in the past periods was immaterial.

(3) Transaction Price Allocated to the Remaining Performance Obligations

The Group Companies retain no significant transactions for which an individual estimated contract period exceeds one year. In addition, consideration arising from contracts with customers do not comprise any significant amount that is not included in transaction price.

(4) Assets Recognized from the Costs to Obtain or Fulfill Contracts with Customers

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Assets recognized from costs to obtain a contract	¥60,219	¥67,220
Assets recognized from costs to fulfill a contract	10,624	12,173
Total	70,843	79,393

The Group Companies recognize the incremental costs of obtaining contracts with customers and the costs incurred in fulfilling contracts with customers that are directly associated with the contract as an asset (hereinafter, “assets arising from contract costs”) if those costs are expected to be recoverable, and record them in “Other assets” in the Consolidated Statements of Financial Position. Incremental costs of obtaining contracts are those costs that the Group Companies incur to obtain a contract with a customer that would not have been incurred if the contract had not been obtained.

Incremental costs of obtaining contracts recognized as assets by the Group Companies are mainly the initial costs incurred relating to the new memberships when acquiring customers for Rakuten Card, and the agency commissions and the costs associated with affiliate programs in Rakuten Mobile. Costs incurred in fulfilling contracts with customers mainly comprise issuance costs of Rakuten Card and SIM card costs in Rakuten Mobile. Such costs in Rakuten Card are incurred by the granting of Rakuten Points to new Rakuten Card holders and would not have been incurred unless the contracts had been entered into. These costs are recognized as an asset to the extent they are considered recoverable based on the estimated active card member ratio. The related asset is amortized evenly over five to ten years based on the estimated contract terms, during which performance obligations are satisfied through the provision of settlement services following the members’ use of their Rakuten cards.

The agency commissions and the costs associated with affiliate programs in Rakuten Mobile

are paid upon acquiring customers and would not have been incurred unless the contracts had been entered into. The assets relating to the telecommunications services are amortized evenly over four to ten years by estimating the service period consumed by a normal user in which the performance obligations are satisfied to provide services. When a telecommunications service and sales of a mobile handset are provided in a single package, the incremental costs to obtain a service contract is amortized at once after allocating to each performance obligation by stand-alone selling price, and the assets relating to sale of mobile handsets are amortized at once when a mobile handset is delivered to the user and the line is opened.

Also, the Group Companies assess collectability of assets arising from contract costs on recognition and at the end of each quarterly period. In making this assessment for Rakuten Card, the Group Companies consider whether the carrying amounts of such assets exceed the balance of the consideration which the Group Companies expect to be entitled to from the interchange for the relevant credit card related services over the estimated period of the contracts with the card members, less any unrecognized costs directly related to the provision of such services.

In making this assessment for Rakuten Mobile, the Group Companies consider whether the carrying amounts of such assets exceed the balance of the consideration which the Group Companies expect to be entitled to from the interchange for the relevant telephone and telecommunications services over the estimated period of the contracts with the users, less any unrecognized costs directly related to the provision of such services. Such accounting estimates and assumptions could have a significant impact on the amount of assets arising from contract costs recorded through the recognition of impairment losses when circumstances change. Therefore, the Group Companies consider that these accounting estimates and assumptions are significant.

For the years ended December 31, 2019 and 2020, amortization associated with the assets arising from contract costs of the Group Companies was ¥14,251 million and ¥15,968 million, respectively.

29. Operating Expenses

The breakdown of operating expenses is as follows:

	(Millions of Yen)	
	Year ended December 31, 2019	Year ended December 31, 2020
Advertising and promotion expenditures	¥230,842	¥264,063
Employee benefits expenses	206,144	236,092
Depreciation and amortization	106,370	151,506
Communication and maintenance expenses	30,667	40,497
Consignment and subcontract expenses	76,367	91,069
Allowance for doubtful accounts charged to expenses	44,555	45,967
Cost of sales of merchandise and services rendered	383,892	530,977
Interest expense for finance business	7,831	9,477
Commission fee expense for finance business	12,564	14,974
Insurance claims and other payments, and provision of insurance business policy reserves	30,431	54,471
Others	137,239	140,537
Total	1,266,902	1,579,630

Employee expenses (employee benefits expenses) are as follows:

1) The breakdown of Employee Expenses

	(Millions of Yen)	
	Year ended December 31, 2019	Year ended December 31, 2020
Wages and salaries	¥165,696	¥191,273
Retirement benefits	12,119	15,206
Legal welfare expenses	11,875	12,352
Share option expenses relating to directors and employees (Note)	9,943	10,449
Other salaries	6,511	6,812
Total	206,144	236,092

(Note) Please refer to Note 36. Share-based Payments.

2) Number of Employees

	December 31, 2019	December 31, 2020
Number of employees	20,053	23,841

(Note) Number of employees represents the number of persons employed at the Group Companies.

30. Other Income and Other Expenses

(1) The breakdown of Other Income

	(Millions of Yen)	
	Year ended December 31, 2019	Year ended December 31, 2020
Foreign exchange gain	¥7,277	¥—
Gains on sales of subsidiaries (Note 1)	—	40,926
Valuation gains on securities (Note 2)	75,120	7,813
Others	4,504	5,744
Total	86,901	54,483

(Notes) 1 A gain on the sale of OverDrive Holdings, Inc. of ¥40,926 million was recorded for the fiscal year ended December 31, 2020.

2 During the fiscal year ended December 31, 2019, Rakuten Group recorded valuation gains on securities of ¥67,376 million related to investments in the ride-sharing business, and ¥7,744 million related to investments in the healthcare business.

(2) The breakdown of Other Expenses

	(Millions of Yen)	
	Year ended December 31, 2019	Year ended December 31, 2020
Foreign exchange loss	¥—	¥1,847
Disposal of property, plant and equipment, and intangible assets	2,504	2,606
Impairment loss	4,641	7,591
Others (Note)	4,041	12,196
Total	11,186	24,240

(Note) Losses on investments in the filmmaking business of ¥3,277 million were recorded for the fiscal year ended December 31, 2020.

31. Financial Income and Financial Expenses

(1) The breakdown of Financial Income

	(Millions of Yen)	
	Year ended December 31, 2019	Year ended December 31, 2020
Interest income	¥717	¥602
Dividend income	202	299
Gain (loss) on derivatives	1,675	—
Valuation gains on investment securities (Note)	220	57,564
Others	828	1,685
Total	3,642	60,150

(Note) The Lyft shares held by the Company are classified as financial assets held for the purpose of financing. For the year ended December 31, 2020, Rakuten Group recorded ¥56,980 million in valuation gains on investment securities under financial income for the valuation gains (losses) incurred through the fair value measurement of the Lyft shares. Details of the change

in the classification of the investment in Lyft are given in Note 1. General Information, (3) Significant Changes in the Scope of Consolidation and the Scope of Equity Method Application.

(2) The breakdown of Financial Expenses

	(Millions of Yen)	
	Year ended December 31, 2019	Year ended December 31, 2020
Interest expense (Note 1)	¥8,745	¥13,866
Gain (loss) on derivatives (Note 2)	—	65,118
Commission fee	282	623
Total	9,027	79,607

(Note) 1. For the years ended December 31, 2019 and 2020, interest expense includes interest expenses associated with lease liabilities of ¥611 million and ¥1,176 million, respectively. Other information on leases is stated in Note 42. Lease Accounting.

- For the year ended December 31, 2020, Rakuten Group recorded a ¥63,903 million in gain (loss) on derivatives in line with the derivative contract for the Prepaid Variable Share Forward Transactions of Lyft shares. Details of the transaction under the forward contract are given in Note 22. Other Financial Liabilities “(Note) Prepaid Variable Share Forward Transactions of Lyft shares.”

32. Earnings per Share

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

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

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

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

	Year ended December 31, 2019			Year ended December 31, 2020		
	Basic	Adjustments	Diluted	Basic	Adjustments	Diluted
Net loss attributable to owners of the Company (Millions of Yen)	¥(31,888)	¥(0)	¥(31,888)	¥(114,199)	—	¥(114,199)
Weighted average number of shares (Thousands of shares)	1,354,167	—	1,354,167	1,359,478	—	1,359,478
Loss per share (Yen)	¥(23.55)	¥(0)	¥(23.55)	¥(84.00)	—	¥(84.00)

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

For the fiscal year ended December 31, 2020, share acquisition rights corresponding to 29,852 thousand shares have been excluded from the calculation of diluted loss per share, as they have reverse dilutive effects.

33. Assets Pledged as Collateral and Assets Received as Collateral

(1) Assets Pledged as Collateral

The Group Companies pledge assets mainly to secure debts from borrowing contracts, e-money deposits, margin trading and security lending transactions conducted under normal terms and conditions, and as monetary deposits in derivative transactions.

The carrying amounts of assets pledged as collateral for liabilities and contingent liabilities by the Group Companies are as follows:

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Cash and cash equivalents	¥168,882	¥194,817
Loans for credit card business (Note 1)	122,695	70,559
Investment securities for banking business	—	83,727
Loans for banking business	116,683	407,294
Investment securities for insurance business	—	10,451
Investment securities (Note 2)	5,209	164,388
Buildings and accompanying facilities	—	4,526
Tools, furniture and fixtures	260	4,645
Machinery facilities	11,252	76,744
Other property, plant and equipment	498	6,170
Software	6,931	19,018
Other assets	—	30,205
Total	432,410	1,072,544

(Notes) 1. Loans for credit card business include securitized receivables.

2. Investment securities as of December 31, 2020 include Lyft shares of ¥159,183 million, which Liberty Holdco Ltd. pledged as collateral for other financial liabilities of ¥72,189 million incurred from the Prepaid Variable Share Forward Transactions of Lyft shares. Details of the transaction under the forward contract are stated in Note 22. Other Financial Liabilities “(Note) Prepaid Variable Share Forward Transactions of Lyft shares.”

In addition to the above, investment securities for banking business of ¥10,464 million, investment securities for insurance business of ¥111,658 million and other financial assets of ¥90,443 million were pledged as collateral for exchange settlements, derivative trading and other transactions, and for commitment lines as of December 31, 2019. Investment securities for banking business of ¥13,592 million, investment securities for insurance business of ¥113,507 million and other financial assets of ¥104,380 million were pledged as collateral for exchange settlements, derivative trading and other transactions, and for commitment lines as of December 31, 2020.

Furthermore, guarantee deposits for margin transactions and future transactions in the securities business in the amount of ¥76,092 million, guarantee deposits for borrowing of share certificates in margin transactions in the securities business in the amount of ¥85,378 million and guarantee deposits for issuing electronic money in the amount of ¥3,893 million were pledged as of

December 31, 2019. Guarantee deposits for margin transactions and future transactions in the securities business in the amount of ¥105,795 million, guarantee deposits for borrowing of share certificates in margin transactions in the securities business in the amount of ¥80,492 million and guarantee deposits for issuing electronic money in the amount of ¥5,905 million were pledged as collateral as of December 31, 2020.

For assets pledged as collateral, the underwriter has no right to sell or to repledge the collateral.

(2) Assets Received as Collateral

The Group Companies receive securities pledged as collateral in lieu of guarantee deposits and collateral for other transactions, which are conducted under normal terms and conditions. The Group Companies hold the rights to sell or repledge the received assets, provided that the securities are returned at the time the relevant transactions are completed. The fair values of securities received by the Group Companies as collateral to which the Group Companies held the right to sell or repledge the collateral as of December 31, 2019 and 2020 were ¥778,415 million and ¥880,366 million, respectively. Within such collateral, fair values of the collateral actually sold or pledged as of December 31, 2019 and 2020 were ¥348,603 million and ¥491,694 million, respectively.

34. Hedge Accounting

(1) Fair Value Hedges

Risk of fair value fluctuation as a result of fluctuations in interest rates

In order to offset the risk of fair value fluctuation on certain fixed rate bonds as a result of fluctuations in interest rates, subsidiaries of the Group Companies have entered into fixed-for-floating interest rate swap contracts with financial institutions as fair value hedges. Accordingly, fluctuations in fair value of interest rates as the hedged item may be offset by the fluctuations in fair value of interest rate swaps as the hedging instrument. The fair values of the interest rate swaps as hedging instruments are stated in Note 12. Derivative Assets and Derivative Liabilities.

As transactions for fixed rate bonds as the hedged item and those for interest rate swaps as the hedging instrument are conducted for the same amount, the hedge ratio is 1:1. Existing hedging relationships are expected to continue to the year ending December 31, 2022. The fair values of interest rate swaps as hedging instruments are stated in Note 12. Derivative Assets and Derivative Liabilities.

Hedged items are as follows.

As of December 31, 2019

Hedged item	Presentation on the Consolidated Statements of Financial Position	Carrying amount	Change in fair value of the hedged item during the year	(Millions of Yen)
				Cumulative adjustments of fair value edge of the hedged item included in the hedge item's carrying amount
Fixed rate bonds	Investment securities for banking business	¥12,701	¥(147)	¥201

As of December 31, 2020

Hedged item	Presentation on the Consolidated Statements of Financial Position	Carrying amount	Change in fair value of the hedged item during the year	(Millions of Yen)
				Cumulative adjustments of fair value edge of the hedged item included in the hedge item's carrying amount
Fixed rate bonds	Investment securities for banking business	¥12,556	¥(145)	¥56

Risk of fluctuation of fair value of listed investment securities

The Group Companies' subsidiaries engage in options, forwards and short-selling in order to avoid the risk of fluctuation in fair values of their holding of listed investment securities that have initially chosen to recognize the fluctuation in fair values as other comprehensive income. Meanwhile, the fluctuation in fair values related to options, forwards and short-selling is also recognized as other comprehensive income. In other words, the fluctuation of fair value of listed investment securities as the hedged items may be offset by the fluctuation in fair values of the shares in the option, forward or short-selling as the hedging instrument.

As transactions for listed investment securities as the hedged item and those for options and forwards as the hedging instrument are conducted for the same amount, the hedge ratio is 1:1. Existing hedging relationships for forwards are expected to continue to the year ending December 31, 2021, while those for options were terminated in the current fiscal year. In addition, as transactions for listed investment securities as the hedged item and those for short-selling as the hedging instrument are conducted for the same amount, the hedge ratio is 1:1. There is no provision for the termination of the hedging contract.

Hedged items are as follows.

As of December 31, 2019

Hedged item	Presentation on the Consolidated Statements of Financial Position	Carrying amount	Change in fair value of the hedged item during the year	(Millions of Yen)
				Cumulative adjustments of fair value edge of the hedged item included in the hedge item's carrying amount
Listed investment securities	Investment securities for insurance business	¥157,197	¥2,437	¥2,380

In the year ended December 31, 2019, cumulative adjustments of fair value hedge remaining in the Statements of Financial Position related to hedging relationships, for which hedge accounting was terminated, were ¥724 million.

As of December 31, 2020

Hedged item	Presentation on the Consolidated Statements of Financial Position	Carrying amount	Change in fair value of the hedged item during the year	(Millions of Yen)
				Cumulative adjustments of fair value edge of the hedged item included in the hedge item's carrying amount
Listed investment securities	Investment securities for insurance business	¥115,416	¥6,577	¥5,581

In the year ended December 31, 2020, cumulative adjustments of fair value hedge remaining

in the Statements of Financial Position related to hedging relationships, for which hedge accounting was terminated, were ¥(204) million.

Fair values of the shares sold short were as follows. Short-selling as hedging instruments was terminated in the current fiscal year. Fair values of shares of the options and forwards as hedging instruments are stated in Note 12. Derivative Assets and Derivative Liabilities.

(Millions of Yen)			
Hedging instrument	Presentation on the Consolidated Statements of Financial Position	As of December 31, 2019	As of December 31, 2020
Short-selling	Other financial liabilities	¥789	—

(2) Cash Flow Hedges

Interest rate fluctuation risk

In order to offset the risk of fluctuations on future cash flows relating to the interest payment for floating rate borrowings, the Group Companies have entered into fixed-for-floating interest rate swap contracts with financial institutions as cash flow hedges. As a result of these hedges, it becomes possible to fix the fluctuations of cash flows relating to the interest payment for floating rate borrowings. The fair values of the interest rate swaps as hedging instruments are stated in Note 12. Derivative Assets and Derivative Liabilities.

As transactions for floating rate borrowings as the hedged item and those for interest rate swaps as the hedging instrument are conducted for the same amount, the hedge ratio is 1:1. Existing hedging relationships are expected to continue to the year ending December 31, 2025.

Schedule of changes in the amounts recognized in other comprehensive income

(Millions of Yen)		
	Year ended December 31, 2019	Year ended December 31, 2020
January 1	¥(490)	¥(620)
Changes for the period	(434)	(572)
Reclassification to net income (Note)	304	345
Reclassification to initial carrying amount of non-financial assets or non-financial liabilities	—	—
December 31	(620)	(847)

(Note) The amounts reclassified to net income are included in "Operating expenses" in the Consolidated Statements of Income.

Exchange rate risk

In order to offset the cash flow fluctuation risk due to fluctuations of foreign exchange, subsidiaries of the Group have entered into forward exchange contracts with financial institutions as cash flow hedges. As a result of these hedges, it will become possible to fix the fluctuations in cash flows from fluctuations in foreign exchange. When designating hedging instruments, the currency basis spread of currency swaps is excluded as hedging costs. The fair values of the forward exchange contracts and currency swaps as hedging instruments are stated in Note 12. Derivative Assets and Derivative Liabilities.

As transactions for foreign currency denominated monetary claims or liabilities as the hedged item and those for forward exchange contracts and currency swaps as the hedging instrument are conducted for the same amount, the hedge ratio is 1:1. Existing hedging relationships are expected to continue to the year ending December 31, 2024.

Schedule of changes in the amounts recognized in other comprehensive income

	(Millions of Yen)	
	Year ended December 31, 2019	Year ended December 31, 2020
January 1	¥(21)	¥(599)
Changes for the period	(787)	45
Reclassification to net income (Note)	209	2,339
Reclassification to initial carrying amount of non-financial assets or non-financial liabilities	—	—
December 31	(599)	1,785

(Note) The amounts reclassified to net income are included in “Revenue” and “Operating expenses” in the Consolidated Statements of Income.

35. Contingent Liabilities and Commitments

(1) Commitment Line Lending Contracts and Guarantee Obligations

Certain consolidated subsidiaries are engaged in consumer lending business through cash advances and credit card loans, which are related to the credit cards. With regard to such loans, of the amount established in a loan contract (the contracted limit), the contract allows customers to take out a loan at any time within the amount of credit limit approved by these consolidated subsidiaries (the loan limit).

Since some of these contracts expire without the actual loan being drawn, in addition to the Group Companies having discretion to increase or decrease the loan limit, the unused balance of these loans would not necessarily be drawn in its entirety.

Additionally, certain consolidated subsidiaries provide credit guarantees to general customers who have received loans from business partners of other consolidated subsidiaries.

The balances of the unused lending commitment lines and guarantee obligations given in the credit guarantee business stated above are as follows:

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Unused balance of lending commitment lines	¥3,882,138	¥4,390,034
Financial guarantee contracts	6,180	5,024
Total	3,888,318	4,395,058

(2) Commitment Line Borrowing Contracts

The Company and certain consolidated subsidiaries have entered into commitment line borrowing contracts with multiple financial institutions and the balances of the unused portions of such commitment lines available are as follows:

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Total commitment line borrowings	¥181,705	¥221,912
Amounts borrowed	10,223	8,782
Unused commitment lines	171,482	213,130

(3) Commitments (Contracts)

As of December 31, 2020, commitments related to acquisition of property, plant and equipment and intangible assets were ¥107,626 million.

As of December 31, 2019, commitments related to acquisition of property, plant and equipment and intangible assets were ¥88,734 million.

36. Share-based Payments

Employee expenses relating to share options recognized by the Group Companies during the years ended December 31, 2019 and 2020 were ¥9,943 million and ¥10,449 million, respectively.

The Group Companies have granted equity-settled share options to its executives and employees, its subsidiaries, and associates.

The Company performed a 100-for-one stock split on July 1, 2012. The balance of outstanding options for each year below has been adjusted to reflect the stock split. Details of the share options granted by the Company are as follows:

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 10th Share Options_01	April 20, 2012	April 19, 2014	0.01	—	From April 20, 2014 to April 20, 2022
The 10th Share Options_02	April 20, 2012	April 19, 2015	0.01	—	From April 20, 2015 to April 20, 2022
The 10th Share Options_03	April 20, 2012	April 19, 2016	0.01	—	From April 20, 2016 to April 20, 2022
The 11th Share Options_01	July 1, 2012	March 29, 2016	0.01	40,000	From March 30, 2016 to March 28, 2022
The 12th Share Options_01	August 1, 2012	March 29, 2016	0.01	18,900	From March 30, 2016 to March 28, 2022
The 13th Share Options_01	August 20, 2012	March 29, 2016	0.01	—	From March 30, 2016 to March 28, 2022
The 14th Share Options_01	November 21, 2012	November 20, 2014	0.01	—	From November 21, 2014 to November 21, 2022
The 14th Share Options_02	November 21, 2012	November 20, 2015	0.01	—	From November 21, 2015 to November 21, 2022
The 14th Share Options_03	November 21, 2012	November 20, 2016	0.01	—	From November 21, 2016 to November 21, 2022
The 15th Share Options_01	February 1, 2013	March 29, 2016	0.01	206,800	From March 30, 2016 to March 28, 2022
The 16th Share Options_01	March 1, 2013	March 29, 2016	0.01	—	From March 30, 2016 to March 28, 2022
The 17th Share Options_01	March 1, 2013	March 29, 2016	0.01	36,900	From March 30, 2016 to March 28, 2022
The 18th Share Options_01	March 1, 2013	March 29, 2016	0.01	—	From March 30, 2016 to March 28, 2022
The 19th Share Options_01	July 1, 2013	March 28, 2017	0.01	175,200	From March 29, 2017 to March 27, 2023

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 20th Share Options_01	December 1, 2013	March 28, 2017	0.01	—	From March 29, 2017 to March 27, 2023
The 21st Share Options_01	February 1, 2014	March 28, 2017	0.01	143,800	From March 29, 2017 to March 27, 2023
The 22nd Share Options_01	March 1, 2014	March 28, 2017	0.01	33,900	From March 29, 2017 to March 27, 2023
The 23rd Share Options_01	March 19, 2014	March 28, 2017	0.01	14,900	From March 29, 2017 to March 27, 2023
The 24th Share Options_01	May 1, 2014	March 28, 2018	0.01	15,000	From March 29, 2018 to March 27, 2024
The 25th Share Options_01	July 1, 2014	March 28, 2018	0.01	210,900	From March 29, 2018 to March 27, 2024
The 26th Share Options_01	September 1, 2014	March 28, 2018	0.01	1,000	From March 29, 2018 to March 27, 2024
The 27th Share Options_01	September 1, 2014	March 28, 2018	0.01	—	From March 29, 2018 to March 27, 2024
The 28th Share Options_01	October 1, 2014	March 28, 2018	0.01	—	From March 29, 2018 to March 27, 2024
The 29th Share Options_01	October 1, 2014	March 28, 2018	0.01	—	From March 29, 2018 to March 27, 2024
The 30th Share Options_01	November 1, 2014	March 28, 2018	0.01	95,500	From March 29, 2018 to March 27, 2024
The 31st Share Options_01	November 1, 2014	March 28, 2018	0.01	2,600	From March 29, 2018 to March 27, 2024
The 32nd Share Options_01	November 1, 2014	March 28, 2018	0.01	—	From March 29, 2018 to March 27, 2024
The 33rd Share Options_01	February 1, 2015	March 28, 2018	0.01	193,700	From March 29, 2018 to March 27, 2024
The 34th Share Options_01	March 1, 2015	March 28, 2018	0.01	—	From March 29, 2018 to March 27, 2024
The 35th Share Options_01	March 1, 2015	March 28, 2018	0.01	—	From March 29, 2018 to March 27, 2024
The 36th Share Options_01	March 1, 2015	March 28, 2018	0.01	60,800	From March 29, 2018 to March 27, 2024
The 37th Share Options_01	June 1, 2015	May 31, 2016	0.01	—	From June 1, 2016 to June 1, 2025

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 37th Share Options 02	June 1, 2015	May 31, 2017	0.01	—	From June 1, 2017 to June 1, 2025
The 37th Share Options 03	June 1, 2015	May 31, 2018	0.01	—	From June 1, 2018 to June 1, 2025
The 37th Share Options 04	June 1, 2015	May 31, 2019	0.01	—	From June 1, 2019 to June 1, 2025
The 38th Share Options 01	July 1, 2015	June 30, 2016	0.01	4,200	From July 1, 2016 to July 1, 2025
The 38th Share Options 02	July 1, 2015	June 30, 2017	0.01	6,500	From July 1, 2017 to July 1, 2025
The 38th Share Options 03	July 1, 2015	June 30, 2018	0.01	8,700	From July 1, 2018 to July 1, 2025
The 38th Share Options 04	July 1, 2015	June 30, 2019	0.01	10,700	From July 1, 2019 to July 1, 2025
The 39th Share Options 01	August 1, 2015	July 31, 2016	0.01	1,700	From August 1, 2016 to August 1, 2025
The 39th Share Options 02	August 1, 2015	July 31, 2017	0.01	15,100	From August 1, 2017 to August 1, 2025
The 39th Share Options 03	August 1, 2015	July 31, 2018	0.01	58,900	From August 1, 2018 to August 1, 2025
The 39th Share Options 04	August 1, 2015	July 31, 2019	0.01	170,800	From August 1, 2019 to August 1, 2025
The 40th Share Options 01	August 1, 2015	March 27, 2019	0.01	100	From March 28, 2019 to March 26, 2025
The 41st Share Options 01	October 1, 2015	September 30, 2016	0.01	—	From October 1, 2016 to October 1, 2025
The 41st Share Options 02	October 1, 2015	September 30, 2017	0.01	—	From October 1, 2017 to October 1, 2025
The 41st Share Options 03	October 1, 2015	September 30, 2018	0.01	—	From October 1, 2018 to October 1, 2025
The 41st Share Options 04	October 1, 2015	September 30, 2019	0.01	—	From October 1, 2019 to October 1, 2025
The 42nd Share Options 01	November 1, 2015	October 31, 2016	0.01	1,500	From November 1, 2016 to October 31, 2025
The 42nd Share Options 02	November 1, 2015	October 31, 2017	0.01	4,100	From November 1, 2017 to October 31, 2025

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 42nd Share Options_03	November 1, 2015	October 31, 2018	0.01	5,700	From November 1, 2018 to October 31, 2025
The 42nd Share Options_04	November 1, 2015	October 31, 2019	0.01	10,000	From November 1, 2019 to October 31, 2025
The 43rd Share Options_01	November 1, 2015	October 31, 2016	0.01	5,600	From November 1, 2016 to October 31, 2025
The 43rd Share Options_02	November 1, 2015	October 31, 2017	0.01	7,500	From November 1, 2017 to October 31, 2025
The 43rd Share Options_03	November 1, 2015	October 31, 2018	0.01	11,900	From November 1, 2018 to October 31, 2025
The 43rd Share Options_04	November 1, 2015	October 31, 2019	0.01	13,800	From November 1, 2019 to October 31, 2025
The 44th Share Options_01	February 1, 2016	January 31, 2017	0.01	13,100	From February 1, 2017 to January 30, 2026
The 44th Share Options_02	February 1, 2016	January 31, 2018	0.01	60,200	From February 1, 2018 to January 30, 2026
The 44th Share Options_03	February 1, 2016	January 31, 2019	0.01	130,600	From February 1, 2019 to January 30, 2026
The 44th Share Options_04	February 1, 2016	January 31, 2020	0.01	289,600	From February 1, 2020 to January 30, 2026
The 45th Share Options_01	February 1, 2016	March 27, 2019	0.01	300	From March 28, 2019 to March 26, 2025
The 46th Share Options_01	March 1, 2016	February 28, 2017	0.01	16,300	From March 1, 2017 to February 27, 2026
The 46th Share Options_02	March 1, 2016	February 28, 2018	0.01	34,500	From March 1, 2018 to February 27, 2026
The 46th Share Options_03	March 1, 2016	February 28, 2019	0.01	61,900	From March 1, 2019 to February 27, 2026
The 46th Share Options_04	March 1, 2016	February 29, 2020	0.01	79,400	From March 1, 2020 to February 27, 2026
The 47th Share Options_01	March 1, 2016	March 27, 2019	0.01	1,500	From March 28, 2019 to March 26, 2025
The 48th Share Options_01	March 1, 2016	March 27, 2019	0.01	1,500	From March 28, 2019 to March 26, 2025
The 49th Share Options_01	May 1, 2016	April 30, 2017	0.01	900	From May 1, 2017 to May 1, 2026

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 49th Share Options 02	May 1, 2016	April 30, 2018	0.01	2,400	From May 1, 2018 to May 1, 2026
The 49th Share Options 03	May 1, 2016	April 30, 2019	0.01	2,700	From May 1, 2019 to May 1, 2026
The 49th Share Options 04	May 1, 2016	April 30, 2020	0.01	5,300	From May 1, 2020 to May 1, 2026
The 50th Share Options 01	August 1, 2016	July 31, 2017	0.01	5,700	From August 1, 2017 to July 31, 2026
The 50th Share Options 02	August 1, 2016	July 31, 2018	0.01	73,000	From August 1, 2018 to July 31, 2026
The 50th Share Options 03	August 1, 2016	July 31, 2019	0.01	152,900	From August 1, 2019 to July 31, 2026
The 50th Share Options 04	August 1, 2016	July 31, 2020	0.01	380,300	From August 1, 2020 to July 31, 2026
The 51st Share Options 01	September 1, 2016	March 30, 2020	0.01	900	From March 31, 2020 to March 29, 2026
The 52nd Share Options 01	November 1, 2016	October 31, 2017	0.01	2,200	From November 1, 2017 to October 30, 2026
The 52nd Share Options 02	November 1, 2016	October 31, 2018	0.01	4,300	From November 1, 2018 to October 30, 2026
The 52nd Share Options 03	November 1, 2016	October 31, 2019	0.01	8,400	From November 1, 2019 to October 30, 2026
The 52nd Share Options 04	November 1, 2016	October 31, 2020	0.01	15,500	From November 1, 2020 to October 30, 2026
The 53rd Share Options 01	November 1, 2016	October 31, 2017	0.01	5,500	From November 1, 2017 to October 30, 2026
The 53rd Share Options 02	November 1, 2016	October 31, 2018	0.01	7,700	From November 1, 2018 to October 30, 2026
The 53rd Share Options 03	November 1, 2016	October 31, 2019	0.01	12,800	From November 1, 2019 to October 30, 2026
The 53rd Share Options 04	November 1, 2016	October 31, 2020	0.01	19,500	From November 1, 2020 to October 30, 2026
The 54th Share Options 01	February 1, 2017	March 30, 2020	0.01	1,100	From March 31, 2020 to March 29, 2026
The 55th Share Options 01	February 1, 2017	January 31, 2018	0.01	8,300	From February 1, 2018 to February 1, 2027

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 55th Share Options 02	February 1, 2017	January 31, 2019	0.01	80,800	From February 1, 2019 to February 1, 2027
The 55th Share Options 03	February 1, 2017	January 31, 2020	0.01	191,800	From February 1, 2020 to February 1, 2027
The 55th Share Options 04	February 1, 2017	January 31, 2021	0.01	795,900	From February 1, 2021 to February 1, 2027
The 56th Share Options 01	March 1, 2017	February 28, 2018	0.01	3,600	From March 1, 2018 to March 1, 2027
The 56th Share Options 02	March 1, 2017	February 28, 2019	0.01	9,300	From March 1, 2019 to March 1, 2027
The 56th Share Options 03	March 1, 2017	February 29, 2020	0.01	18,400	From March 1, 2020 to March 1, 2027
The 56th Share Options 04	March 1, 2017	February 28, 2021	0.01	50,400	From March 1, 2021 to March 1, 2027
The 57th Share Options 01	March 1, 2017	March 30, 2020	0.01	3,600	From March 31, 2020 to March 29, 2026
The 58th Share Options 01	March 1, 2017	March 30, 2020	0.01	1,800	From March 31, 2020 to March 29, 2026
The 59th Share Options 01	March 1, 2017	February 28, 2018	0.01	50,200	From March 1, 2018 to March 1, 2027
The 59th Share Options 02	March 1, 2017	February 28, 2019	0.01	95,600	From March 1, 2019 to March 1, 2027
The 59th Share Options 03	March 1, 2017	February 29, 2020	0.01	160,100	From March 1, 2020 to March 1, 2027
The 59th Share Options 04	March 1, 2017	February 28, 2021	0.01	485,900	From March 1, 2021 to March 1, 2027
The 60th Share Options 01	May 1, 2017	April 30, 2018	0.01	2,900	From May 1, 2018 to April 30, 2027
The 60th Share Options 02	May 1, 2017	April 30, 2019	0.01	6,000	From May 1, 2019 to April 30, 2027
The 60th Share Options 03	May 1, 2017	April 30, 2020	0.01	11,100	From May 1, 2020 to April 30, 2027
The 60th Share Options 04	May 1, 2017	April 30, 2021	0.01	132,500	From May 1, 2021 to April 30, 2027
The 61st Share Options 01	August 1, 2017	March 30, 2021	0.01	900	From March 31, 2021 to March 29, 2027

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 62nd Share Options_01	August 1, 2017	July 31, 2018	0.01	9,800	From August 1, 2018 to July 30, 2027
The 62nd Share Options_02	August 1, 2017	July 31, 2019	0.01	71,500	From August 1, 2019 to July 30, 2027
The 62nd Share Options_03	August 1, 2017	July 31, 2020	0.01	224,400	From August 1, 2020 to July 30, 2027
The 62nd Share Options_04	August 1, 2017	July 31, 2021	0.01	915,800	From August 1, 2021 to July 30, 2027
The 63rd Share Options_01	November 1, 2017	October 31, 2018	0.01	3,600	From November 1, 2018 to November 1, 2027
The 63rd Share Options_02	November 1, 2017	October 31, 2019	0.01	12,600	From November 1, 2019 to November 1, 2027
The 63rd Share Options_03	November 1, 2017	October 31, 2020	0.01	19,600	From November 1, 2020 to November 1, 2027
The 63rd Share Options_04	November 1, 2017	October 31, 2021	0.01	224,900	From November 1, 2021 to November 1, 2027
The 64th Share Options_01	November 1, 2017	October 31, 2018	0.01	4,200	From November 1, 2018 to November 1, 2027
The 64th Share Options_02	November 1, 2017	October 31, 2019	0.01	6,600	From November 1, 2019 to November 1, 2027
The 64th Share Options_03	November 1, 2017	October 31, 2020	0.01	11,400	From November 1, 2020 to November 1, 2027
The 64th Share Options_04	November 1, 2017	October 31, 2021	0.01	19,300	From November 1, 2021 to November 1, 2027
The 65th Share Options_01	January 1, 2018	December 31, 2018	0.01	900	From January 1, 2019 to December 29, 2027
The 65th Share Options_02	January 1, 2018	December 31, 2019	0.01	1,800	From January 1, 2020 to December 29, 2027
The 65th Share Options_03	January 1, 2018	December 31, 2020	0.01	6,600	From January 1, 2021 to December 29, 2027
The 65th Share Options_04	January 1, 2018	December 31, 2021	0.01	20,000	From January 1, 2022 to December 29, 2027
The 66th Share Options_01	February 1, 2018	March 30, 2021	0.01	1,700	From March 31, 2021 to March 29, 2027
The 67th Share Options_01	February 1, 2018	January 31, 2019	0.01	11,200	From February 1, 2019 to February 1, 2028

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 67th Share Options 02	February 1, 2018	January 31, 2020	0.01	156,100	From February 1, 2020 to February 1, 2028
The 67th Share Options 03	February 1, 2018	January 31, 2021	0.01	531,900	From February 1, 2021 to February 1, 2028
The 67th Share Options 04	February 1, 2018	January 31, 2022	0.01	994,000	From February 1, 2022 to February 1, 2028
The 68th Share Options 01	March 1, 2018	February 28, 2019	0.01	9,200	From March 1, 2019 to March 1, 2028
The 68th Share Options 02	March 1, 2018	February 29, 2020	0.01	23,900	From March 1, 2020 to March 1, 2028
The 68th Share Options 03	March 1, 2018	February 28, 2021	0.01	65,800	From March 1, 2021 to March 1, 2028
The 68th Share Options 04	March 1, 2018	February 28, 2022	0.01	86,000	From March 1, 2022 to March 1, 2028
The 69th Share Options 01	March 1, 2018	March 30, 2021	0.01	6,300	From March 31, 2021 to March 29, 2027
The 70th Share Options 01	March 1, 2018	March 30, 2021	0.01	8,400	From March 31, 2021 to March 29, 2027
The 71st Share Options 01	March 1, 2018	February 28, 2019	0.01	110,500	From March 1, 2019 to March 1, 2028
The 71st Share Options 02	March 1, 2018	February 29, 2020	0.01	159,900	From March 1, 2020 to March 1, 2028
The 71st Share Options 03	March 1, 2018	February 28, 2021	0.01	401,500	From March 1, 2021 to March 1, 2028
The 71st Share Options 04	March 1, 2018	February 28, 2022	0.01	473,300	From March 1, 2022 to March 1, 2028
The 72nd Share Options 01	May 1, 2018	April 30, 2019	0.01	47,400	From May 1, 2019 to May 1, 2028
The 72nd Share Options 02	May 1, 2018	April 30, 2020	0.01	78,000	From May 1, 2020 to May 1, 2028
The 72nd Share Options 03	May 1, 2018	April 30, 2021	0.01	597,300	From May 1, 2021 to May 1, 2028
The 72nd Share Options 04	May 1, 2018	April 30, 2022	0.01	742,300	From May 1, 2022 to May 1, 2028

The Share Options	73rd 01	August 1, 2018	July 31, 2019	0.01	38,500	From August 1, 2019 to August 1, 2028
The Share Options	73rd 02	August 1, 2018	July 31, 2020	0.01	443,900	From August 1, 2020 to August 1, 2028
The Share Options	73rd 03	August 1, 2018	July 31, 2021	0.01	1,454,600	From August 1, 2021 to August 1, 2028
The Share Options	73rd 04	August 1, 2018	July 31, 2022	0.01	2,284,400	From August 1, 2022 to August 1, 2028
The Share Options	74th 01	November 1, 2018	October 31, 2019	0.01	6,500	From November 1, 2019 to November 1, 2028
The Share Options	74th 02	November 1, 2018	October 31, 2020	0.01	16,800	From November 1, 2020 to November 1, 2028
The Share Options	74th 03	November 1, 2018	October 31, 2021	0.01	101,500	From November 1, 2021 to November 1, 2028
The Share Options	74th 04	November 1, 2018	October 31, 2022	0.01	123,300	From November 1, 2022 to November 1, 2028
The Share Options	75th 01	November 1, 2018	October 31, 2019	0.01	18,100	From November 1, 2019 to November 1, 2028
The Share Options	75th 02	November 1, 2018	October 31, 2020	0.01	26,600	From November 1, 2020 to November 1, 2028
The Share Options	75th 03	November 1, 2018	October 31, 2021	0.01	92,100	From November 1, 2021 to November 1, 2028
The Share Options	75th 04	November 1, 2018	October 31, 2022	0.01	107,600	From November 1, 2022 to November 1, 2028
The Share Options	76th 01	February 1, 2019	January 31, 2020	0.01	74,100	From February 1, 2020 to February 1, 2029
The Share Options	76th 02	February 1, 2019	January 31, 2021	0.01	870,800	From February 1, 2021 to February 1, 2029
The Share Options	76th 03	February 1, 2019	January 31, 2022	0.01	1,015,100	From February 1, 2022 to February 1, 2029
The Share Options	76th 04	February 1, 2019	January 31, 2023	0.01	1,834,400	From February 1, 2023 to February 1, 2029
The Share Options	77th 01	March 1, 2019	February 29, 2020	0.01	20,300	From March 1, 2020 to March 1, 2029
The Share Options	77th 02	March 1, 2019	February 28, 2021	0.01	64,100	From March 1, 2021 to March 1, 2029

The 77th Share Options 03	March 1, 2019	February 28, 2022	0.01	95,900	From March 1, 2022 to March 1, 2029
The 77th Share Options 04	March 1, 2019	February 28, 2023	0.01	125,100	From March 1, 2023 to March 1, 2029
The 78th Share Options 01	March 1, 2019	February 29, 2020	0.01	5,400	From March 1, 2020 to March 1, 2029
The 78th Share Options 02	March 1, 2019	February 28, 2021	0.01	28,800	From March 1, 2021 to March 1, 2029
The 78th Share Options 03	March 1, 2019	February 28, 2022	0.01	42,900	From March 1, 2022 to March 1, 2029
The 78th Share Options 04	March 1, 2019	February 28, 2023	0.01	51,400	From March 1, 2023 to March 1, 2029
The 79th Share Options 01	May 1, 2019	April 30, 2020	0.01	65,100	From May 1, 2020 to May 1, 2029
The 79th Share Options 02	May 1, 2019	April 30, 2021	0.01	583,800	From May 1, 2021 to May 1, 2029
The 79th Share Options 03	May 1, 2019	April 30, 2022	0.01	889,000	From May 1, 2022 to May 1, 2029
The 79th Share Options 04	May 1, 2019	April 30, 2023	0.01	1,080,500	From May 1, 2023 to May 1, 2029
The 80th Share Options 01	May 1, 2019	April 30, 2020	0.01	14,400	From May 1, 2020 to May 1, 2029
The 80th Share Options 02	May 1, 2019	April 30, 2021	0.01	26,400	From May 1, 2021 to May 1, 2029
The 80th Share Options 03	May 1, 2019	April 30, 2022	0.01	39,600	From May 1, 2022 to May 1, 2029
The 80th Share Options 04	May 1, 2019	April 30, 2023	0.01	46,200	From May 1, 2023 to May 1, 2029
The 81st Share Options 01	May 1, 2019	October 31, 2019	0.01	1,118,900	From November 1, 2019 to May 1, 2029
The 82nd Share Options 01	August 1, 2019	July 31, 2020	0.01	25,500	From August 1, 2020 to August 1, 2029
The 82nd Share Options 02	August 1, 2019	July 31, 2021	0.01	250,400	From August 1, 2021 to August 1, 2029
The 82nd Share Options 03	August 1, 2019	July 31, 2022	0.01	550,500	From August 1, 2022 to August 1, 2029

The Share Options	82nd 04	August 1, 2019	July 31, 2023	0.01	1,026,500	From August 1, 2023 to August 1, 2029
The Share Options	83rd 01	November 1, 2019	October 31, 2020	0.01	178,600	From November 1, 2020 to November 1, 2029
The Share Options	83rd 02	November 1, 2019	October 31, 2021	0.01	678,100	From November 1, 2021 to November 1, 2029
The Share Options	83rd 03	November 1, 2019	October 31, 2022	0.01	1,018,900	From November 1, 2022 to November 1, 2029
The Share Options	83rd 04	November 1, 2019	October 31, 2023	0.01	1,228,500	From November 1, 2023 to November 1, 2029
The Share Options	84th 01	November 1, 2019	October 31, 2020	0.01	17,800	From November 1, 2020 to November 1, 2029
The Share Options	84th 02	November 1, 2019	October 31, 2021	0.01	35,400	From November 1, 2021 to November 1, 2029
The Share Options	84th 03	November 1, 2019	October 31, 2022	0.01	53,100	From November 1, 2022 to November 1, 2029
The Share Options	84th 04	November 1, 2019	October 31, 2023	0.01	62,100	From November 1, 2023 to November 1, 2029
The Share Options	85th 01	February 1, 2020	January 31, 2021	0.01	128,000	From February 1, 2021 to February 1, 2030
The Share Options	85th 02	February 1, 2020	January 31, 2022	0.01	653,200	From February 1, 2022 to February 1, 2030
The Share Options	85th 03	February 1, 2020	January 31, 2023	0.01	825,900	From February 1, 2023 to February 1, 2030
The Share Options	85th 04	February 1, 2020	January 31, 2024	0.01	1,709,500	From February 1, 2024 to February 1, 2030
The Share Options	86th 01	March 1, 2020	February 28, 2021	0.01	52,100	From March 1, 2021 to March 1, 2030
The Share Options	86th 02	March 1, 2020	February 28, 2022	0.01	73,300	From March 1, 2022 to March 1, 2030
The Share Options	86th 03	March 1, 2020	February 28, 2023	0.01	101,700	From March 1, 2023 to March 1, 2030
The Share Options	86th 04	March 1, 2020	February 29, 2024	0.01	125,000	From March 1, 2024 to March 1, 2030
The Share Options	87th 01	March 1, 2020	March 1, 2020	0.01	1,016,800	From March 1, 2020 to March 1, 2060

The 88th Share Options_01	May 1, 2020	April 30, 2021	0.01	838,700	From May 1, 2021 to May 1, 2030
The 88h Share Options_02	May 1, 2020	April 30, 2022	0.01	1,181,500	From May 1, 2022 to May 1, 2030
The 88h Share Options_03	May 1, 2020	April 30, 2023	0.01	1,818,900	From May 1, 2023 to May 1, 2030
The 88th Share Options_04	May 1, 2020	April 30, 2024	0.01	2,146,300	From May 1, 2024 to May 1, 2030
The 89th Share Options_01	May 1, 2020	May 1, 2020	0.01	177,000	From May 1, 2020 to May 1, 2060
The 90th Share Options_01	August 1, 2020	July 31, 2021	0.01	102,500	From August 1, 2021 to August 1, 2030
The 90th Share Options_02	August 1, 2020	July 31, 2022	0.01	672,800	From August 1, 2022 to August 1, 2030
The 90th Share Options_03	August 1, 2020	July 31, 2023	0.01	854,900	From August 1, 2023 to August 1, 2030
The 90th Share Options_04	August 1, 2020	July 31, 2024	0.01	1,826,600	From August 1, 2024 to August 1, 2030
The 91st Share Options_01	November 1, 2020	October 31, 2021	0.01	64,200	From November 1, 2021 to November 1, 2030
The 91st Share Options_02	November 1, 2020	October 31, 2022	0.01	91,100	From November 1, 2022 to November 1, 2030
The 91st Share Options_03	November 1, 2020	October 31, 2023	0.01	137,700	From November 1, 2023 to November 1, 2030
The 91st Share Options_04	November 1, 2020	October 31, 2024	0.01	167,300	From November 1, 2024 to November 1, 2030
The 92nd Share Options_01	November 1, 2020	October 31, 2021	0.01	48,900	From November 1, 2021 to November 1, 2030
The 92nd Share Options_02	November 1, 2020	October 31, 2022	0.01	65,400	From November 1, 2022 to November 1, 2030
The 92nd Share Options_03	November 1, 2020	October 31, 2023	0.01	98,100	From November 1, 2023 to November 1, 2030
The 92nd Share Options_04	November 1, 2020	October 31, 2024	0.01	114,600	From November 1, 2024 to November 1, 2030

(Note) The balance of outstanding options has been converted into the number of shares.

The number of options and the weighted average exercise price related to share options granted by the Company are as follows:

	Year ended December 31, 2019		Year ended December 31, 2020	
	Number of options (Note)	Weighted average exercise price (Yen)	Number of options (Note)	Weighted average exercise price (Yen)
Balance at the beginning of the year	29,870,900	¥4.09	39,087,500	¥0.01
Granted	17,698,100	0.01	16,022,000	0.01
Forfeited	4,168,700	0.01	4,696,700	0.01
Exercised	4,236,600	16.18	6,245,800	0.01
Expired	76,200	701.00	—	—
Outstanding balance at the end of the year	39,087,500	0.01	44,167,000	0.01
Exercisable amount at the end of the year	4,993,900	0.01	7,847,100	0.01
Weighted average remaining contract years	9.31 years		9.71 years	

(Note) The number of options has been converted into the number of shares.

The weighted average share prices of the Company as of the exercise date were ¥1,033 and ¥987 for the years ended December 31, 2019 and 2020, respectively.

The expiration dates and the exercise prices of the outstanding options related to share options granted by the Company are as follows:

	December 31, 2019		December 31, 2020	
	Exercise price (Yen)	Number of options (Note)	Exercise price (Yen)	Number of options (Note)
2022	0.01	359,600	0.01	302,600
2023	0.01	458,800	0.01	367,800
2024	0.01	729,100	0.01	579,500
2025	0.01	450,400	0.01	340,100
2026	0.01	2,978,000	0.01	1,392,100
2027	0.01	5,567,600	0.01	3,673,100
2028	0.01	12,249,800	0.01	9,202,200
2029	0.01	15,076,300	0.01	12,098,700
2030	—	—	0.01	13,898,200
2059	0.01	1,217,900	0.01	1,118,900
2060	—	—	0.01	1,193,800
Balance at end of the period	—	39,087,500	—	44,167,000

(Note) The number of options has been converted into the number of shares.

The Company granted equity-settled share options to executives and employees of the company, its subsidiaries, and associates during the year ended December 31, 2020. The fair value of the options granted has been calculated using the Black-Scholes model adjusted for dividends. The fair value and assumptions used in the calculation are as follows.

Expected volatility of the Company has been calculated as an annual rate based on the historical period of share prices corresponding to the expected remaining period and weekly data (weekly closing price versus volatility of the previous week), assuming 52 weeks in a year.

	December 31, 2020		
	The Company 2020 85th Share Options_01	The Company 2020 85th Share Options_02	The Company 2020 85th Share Options_03
Weighted average share prices (Yen)	¥856	¥856	¥856
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	28.73	32.23	29.66
Remaining term (Years)	1.01	2.01	3.01
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.15)	(0.16)	(0.18)
Fair value per share (Yen)	¥851	¥847	¥843

	December 31, 2020		
	The Company 2020 85th Share Options_04	The Company 2020 86th Share Options_01	The Company 2020 86th Share Options_02
Weighted average share prices (Yen)	¥856	¥903	¥903
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	32.10	30.34	32.97
Remaining term (Years)	4.01	1.00	2.00
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.18)	(0.23)	(0.26)
Fair value per share (Yen)	¥838	¥898	¥894

	December 31, 2020		
	The Company 2020 86th Share Options_03	The Company 2020 86th Share Options_04	The Company 2020 87th Share Options_01
Weighted average share prices (Yen)	¥903	¥903	¥903
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	30.26	31.52	32.61
Remaining term (Years)	3.00	4.01	5.70
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.27)	(0.27)	(0.28)
Fair value per share (Yen)	¥890	¥885	¥878

	December 31, 2020		
	The Company 2020 88th Share Options_01	The Company 2020 88th Share Options_02	The Company 2020 88th Share Options_03
Weighted average share prices (Yen)	¥914	¥914	¥914
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	43.50	40.48	35.70
Remaining term (Years)	1.00	2.00	3.00
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.17)	(0.16)	(0.17)
Fair value per share (Yen)	¥909	¥905	¥901

	December 31, 2020		
	The Company 2020 88th Share Options_04	The Company 2020 89th Share Options_01	The Company 2020 90th Share Options_01
Weighted average share prices (Yen)	¥914	¥914	¥965
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	34.63	35.57	42.55
Remaining term (Years)	4.01	5.70	1.00
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.17)	(0.15)	(0.16)
Fair value per share (Yen)	¥896	¥889	¥960

	December 31, 2020		
	The Company 2020 90th Share Options_02	The Company 2020 90th Share Options_03	The Company 2020 90th Share Options_04
Weighted average share prices (Yen)	¥965	¥965	¥965
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	40.16	35.61	33.53
Remaining term (Years)	2.00	3.00	4.01
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.14)	(0.15)	(0.14)
Fair value per share (Yen)	¥956	¥952	¥947

	December 31, 2020		
	The Company 2020 91st Share Options_01	The Company 2020 91st Share Options_02	The Company 2020 91st Share Options_03
Weighted average share prices (Yen)	¥1,015	¥1,015	¥1,015
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	48.98	42.64	38.46
Remaining term (Years)	1.00	2.00	3.00
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.14)	(0.13)	(0.13)
Fair value per share (Yen)	¥1,010	¥1,006	¥1,002

	December 31, 2020		
	The Company 2020 91st Share Options_04	The Company 2020 92nd Share Options_01	The Company 2020 92nd Share Options_02
Weighted average share prices (Yen)	¥1,015	¥1,015	¥1,015
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	35.35	48.98	42.64
Remaining term (Years)	4.01	1.00	2.00
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.12)	(0.14)	(0.13)
Fair value per share (Yen)	¥997	¥1,010	¥1,006

	December 31, 2020	
	The Company 2020 92nd Share Options_03	The Company 2020 92nd Share Options_04
Weighted average share prices (Yen)	¥1,015	¥1,015
Exercise price (Yen)	¥0.01	¥0.01
Expected volatility (%)	38.46	35.35
Remaining term (Years)	3.00	4.01
Expected dividend (Yen)	¥4.50	¥4.50
Risk-free rate (%)	(0.13)	(0.12)
Fair value per share (Yen)	¥1,002	¥997

37. Dividends

	Year ended December 31, 2019		Year ended December 31, 2020	
	Dividends per share (Yen)	Amount of dividends (Millions of Yen)	Dividends per share (Yen)	Amount of dividends (Millions of Yen)
Dividends paid				
Dividends by resolution at the Board of Directors in the previous year	¥4.5	¥6,084	¥4.5	¥6,103
Dividends paid during the current year	—	—	—	—
Total dividends paid applicable to the year	4.5	6,084	4.5	6,103

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

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

(Note) Cash dividends paid with record date during the year ended December 31, 2020 are as follows:

Date of resolution	Total dividends (Millions of Yen)	Dividends per share (Yen)
Resolution at the Board of Directors on February 12, 2021	¥6,131	¥4.5

38. Classification of Financial Instruments

The Group Companies' financial instruments are classified as follows:

As of December 31, 2019

(Financial Assets)

(Millions of Yen)

	Financial assets measured at fair value			Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Debt instruments measured at FVTOCI	Equity instruments measured at FVTOCI		
Cash and cash equivalents	¥—	¥—	¥—	¥1,478,557	¥1,478,557
Accounts receivable - trade	121	—	—	222,364	222,485
Financial assets for securities business	948	—	—	1,975,061	1,976,009
Loans for credit card business	—	—	—	1,828,216	1,828,216
Investment securities for banking business	1,357	257,476	0	13,878	272,711
Loans for banking business	—	—	—	1,049,993	1,049,993
Investment securities for insurance business	5,428	75,117	206,655	—	287,200
Derivative assets	28,050	—	—	—	28,050
Investment securities	149,169	—	5,677	8,413	163,259
Other financial assets (Note)	7,616	—	—	327,631	335,247
Total	192,689	332,593	212,332	6,904,113	7,641,727

(Note) Insurance business policy reserves (reinsured portion) of ¥54,987 million are excluded.

(Financial Liabilities)

(Millions of Yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at FVTPL		
Accounts payable -trade	¥—	¥—	¥329,483	¥329,483
Deposits for banking business	—	—	3,160,748	3,160,748
Financial liabilities for securities business	—	—	1,860,645	1,860,645
Derivative liabilities (Note) 1	10,172	—	—	10,172
Bonds and borrowings	—	—	1,727,096	1,727,096
Other financial liabilities (Note) 2	2,852	—	817,588	820,440
Total	13,024	—	7,895,560	7,908,584

- (Notes) 1. Derivatives of ¥3,302 million are included in derivative liabilities for which, as hedges of financial assets measured at FVTOCI, measurement at fair value is mandatory and fair value changes are recognized as other comprehensive income. Details are described in “Note 34 Hedge Accounting.”
2. The securities borrowed balance of ¥789 million is included in other financial liabilities for which, as hedges of financial assets measured at FVTOCI, measurement at fair value is mandatory and its fair value change is recognized as other comprehensive income. Details are described in “Note 34 Hedge Accounting.”

As of December 31, 2020

(Financial Assets)

(Millions of Yen)

	Financial assets measured at fair value			Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Debt instruments measured at FVTOCI	Equity instruments measured at FVTOCI		
Cash and cash equivalents	¥—	¥—	¥—	¥3,021,306	¥3,021,306
Accounts receivable — trade	2	—	—	243,884	243,886
Financial assets for securities business	849	—	—	2,672,380	2,673,229
Loans for credit card business	—	—	—	2,033,013	2,033,013
Investment securities for banking business	1,253	251,879	0	13,095	266,227
Loans for banking business	—	—	—	1,436,513	1,436,513
Investment securities for insurance business	5,484	129,555	148,930	—	283,969
Derivative assets	32,644	—	—	—	32,644
Investment securities	260,852	—	6,375	8,009	275,236
Other financial assets (Note)	11,348	—	—	425,006	436,354
Total	312,432	381,434	155,305	9,853,206	10,702,377

(Note) Insurance business policy reserves (reinsured portion) of ¥56,332 million are excluded.

(Financial Liabilities)

(Millions of Yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at FVTPL		
Accounts payable — trade	¥—	¥—	¥337,427	¥337,427
Deposits for banking business	—	—	4,716,162	4,716,162
Financial liabilities for securities business	—	—	2,587,227	2,587,227
Derivative liabilities (Note)	78,318	—	—	78,318
Bonds and borrowings	—	—	2,487,457	2,487,457
Other financial liabilities	3,062	—	1,128,443	1,131,505
Total	81,380	—	11,256,716	11,338,096

(Note) Derivatives of ¥5,581 million are included in derivative liabilities for which, as hedges of financial assets measured at FVTOCI, measurement at fair value is mandatory and fair value changes are recognized as other comprehensive income. Details are described in “Note 34 Hedge Accounting.”

(1) Equity Instruments Measured at FVTOCI

Of the shares held by the Group Companies, those held over the long term for the purpose of strengthening business relationships or in anticipation of synergistic effects, etc. in business operations are designated as equity instruments measured at FVTOCI.

Equity instruments measured at FVTOCI as of December 31, 2019 mainly comprise exchange-traded real estate investment trusts, with a fair value of ¥146,779 million. Equity instruments measured at FVTOCI as of December 31, 2020 mainly comprise exchange-traded real estate investment trusts, with a fair value of ¥107,638 million.

During the year ended December 31, 2019, shares of investments from which synergistic effects, etc. could no longer be anticipated were sold. In addition, some shares were sold as part of the companywide financial strategy reconsideration. The fair value of such investments at the time of sales was ¥66,799 million, and cumulative fair value gains within other comprehensive income at the time of sale were ¥29,297 million. During the year ended December 31, 2020, shares of investments which synergistic effects, etc. could no longer be anticipated were sold. In addition, some shares were sold as part of the companywide financial strategies reconsideration. The fair value of such investments at the time of sales was ¥37,301 million, and cumulative fair value losses within other comprehensive income at the time of sale were ¥11,581 million.

Additionally, during the year ended December 31, 2019, dividend income recognized from shares designated as equity instruments measured at FVTOCI was ¥3,432 million, of which, the amount relating to shares held as of December 31, 2019 was ¥3,402 million. Furthermore, during the year ended December 31, 2020, dividend income recognized from shares designated as equity instruments measured at FVTOCI was ¥6,097 million, of which, the amount relating to shares held as of December 31, 2020 was ¥5,997 million.

During the year ended December 31, 2019, the Group Companies reclassified ¥28,599 million of cumulative gains in equity, related to shares designated as equity instruments measured at FVTOCI, to retained earnings on the sale of such shares, etc. During the year ended December 31, 2020, the Group Companies reclassified ¥2,322 million of cumulative losses in equity, related to shares designated as equity instruments measured at FVTOCI, to retained earnings on the sale of such shares, etc.

39. Gains and Losses on Financial Instruments

The analysis of the gains and losses on financial instruments held by the Group Companies is as follows. In the previous fiscal year, there are no gains and losses on derecognition of financial assets measured at amortized cost.

For the year ended December 31, 2019

(1) The breakdown of Net Gains and Losses on Financial Assets by Type of Financial Instruments (Millions of Yen)

	Financial assets measured at fair value			Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Debt instruments measured at FVTOCI	Equity instruments measured at FVTOCI		
Revenue	¥19,348	¥1,807	¥3,284	¥956	¥25,395
Operating expenses	—	388	—	44,555	44,943
Other income	75,120	—	—	—	75,120
Financial income	2,060	—	865	—	2,925
Amount recognized in other comprehensive income during the year	(1,652)	1,560	16,505	—	16,413
Amount of reclassification adjustment at the time of derecognition	649	(1,420)	—	—	(771)

There are no net gains or losses on financial assets designated as being measured at fair value.

Net gains on financial assets measured at FVTPL include interest income, dividend income and commissions received relating to such assets. Interest income and commission revenue from financial assets measured at FVTOCI and financial assets measured at amortized cost are noted in (3) and (4), respectively.

(2) The breakdown of Net Gains and Losses on Financial Liabilities by Type of Financial Instruments
(Millions of Yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at fair value		
Revenue	¥—	¥11	¥—	¥11
Operating expenses	—	0	—	0

Interest expenses and commission fee expenses from financial liabilities measured at amortized cost are noted in (3) and (4), respectively.

(3) The breakdown of Total Interest Income and Interest Expenses (Calculated Using the Effective Interest Method) from Financial Instruments by Type of Financial Instruments
(Millions of Yen)

	Debt instruments measured at FVTOCI	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost
Revenue	¥15,722	¥168,611	¥—
Operating expenses	—	—	7,572
Financial income	—	717	—
Financial expenses	—	—	8,744
Total	15,722	169,328	16,316

(4) The breakdown of Commission Revenue and Commission Fee Expenses from Financial Instruments by Type of Financial Instruments
(Millions of Yen)

	Debt instruments measured at FVTOCI	Equity instruments measured at FVTOCI	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Trust and other trustee operations
Revenue	¥—	¥—	¥—	¥—	¥209
Financial expenses	—	—	—	283	—

(5) Analysis of Gains and Losses on Derecognition of Financial Assets Measured at Amortized Cost and Reason for Derecognition
(Millions of Yen)

	Gains on derecognition of financial assets measured at amortized cost	Losses on derecognition of financial assets measured at amortized cost
Investment securities for insurance business	1,103	—

Certain investment securities for the insurance business have been derecognized due to the sale of such assets for the purpose of flexibly responding to future changes in the interest rate environment.

For the year ended December 31, 2020

(1) The breakdown of Net Gains and Losses on Financial Assets by Type of Financial Instruments
(Millions of Yen)

	Financial assets measured at fair value			Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Debt instruments measured at FVTOCI	Equity instruments measured at FVTOCI		
Revenue	¥21,445	¥319	¥6,069	¥(145)	¥27,688
Operating expenses	—	68	—	46,089	46,157
Other income	7,813	—	—	40	7,853
Financial income	57,888	—	28	—	57,916
Amount recognized in other comprehensive income during the year	(766)	1,616	(18,898)	—	(18,048)
Amount of reclassification adjustment at the time of derecognition	3,893	(254)	—	—	3,639

There are no net gains or losses on financial assets designated as being measured at fair value.

Net gains on financial assets measured at FVTPL include interest income, dividend income, commissions received and valuation gains on investment securities relating to such assets. Interest income and commission revenue from financial assets measured at FVTOCI and financial assets measured at amortized cost are noted in (3) and (4), respectively.

(2) The breakdown of Net Gains and Losses on Financial Liabilities by Type of Financial Instruments
(Millions of Yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at fair value		
Revenue	¥—	¥—	¥—	¥—
Operating expenses	—	—	—	—
Financial income	—	—	1,631	1,631
Financial expenses	65,118	—	—	65,118

Net losses on financial liabilities subject to mandatory measurement at fair value include loss on valuation of derivatives. Interest expenses and commission fee expenses from financial liabilities measured at amortized cost are noted in (3) and (4), respectively.

(3) The breakdown of Total Interest Income and Interest Expenses (Calculated Using the Effective Interest Method) from Financial Instruments by Type of Financial Instruments

	(Millions of Yen)		
	Debt instruments measured at FVTOCI	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost
Revenue	¥15,438	¥182,106	¥—
Operating expenses	—	—	9,321
Financial income	—	602	—
Financial expenses	—	—	13,866
Total	15,438	182,708	23,187

(4) The breakdown of Commission Revenue and Commission Fee Expenses from Financial Instruments by Type of Financial Instruments

	(Millions of Yen)				
	Debt instruments measured at FVTOCI	Equity instruments measured at FVTOCI	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Trust and other trustee operations
Revenue	¥—	¥—	¥—	¥—	¥218
Financial expenses	—	—	—	623	—

(5) Analysis of Gains and Losses on Derecognition of Financial Assets Measured at Amortized Cost and Reason for Derecognition

	(Millions of Yen)	
	Gains on derecognition of financial assets measured at amortized cost	Losses on derecognition of financial assets measured at amortized cost
Investment securities for banking business	—	122
Others	40	—

Certain investment securities for the banking business have been derecognized due to the sale of such assets for the purpose of flexibly responding to future changes in the interest rate environment.

40. Fair Value of Financial Instruments

(1) Carrying Amount and Fair Value of Financial Instruments

The following table provides a comparison between carrying amounts and fair values of the financial instruments held by the Group Companies.

(Millions of Yen)

	December 31, 2019		
	Carrying amount	Fair value	Difference
(Financial assets)			
Financial assets for securities business	¥1,976,009	¥1,976,009	¥—
Loans for credit card business	1,828,216	1,878,690	50,474
Investment securities for banking business	272,711	272,826	115
Loans for banking business	1,049,993	1,053,598	3,605
Investment securities for insurance business	287,200	287,200	—
Derivative assets	28,050	28,050	—
Investment securities	163,259	163,377	118
Other financial assets (Note)	335,247	335,247	—
Total	5,940,685	5,994,997	54,312
(Financial liabilities)			
Deposits for banking business	3,160,748	3,160,812	64
Financial liabilities for securities business	1,860,645	1,860,645	—
Derivative liabilities	10,172	10,172	—
Bonds and borrowings	1,727,096	1,741,672	14,576
Total	6,758,661	6,773,301	14,640

(Note) Insurance business policy reserves (reinsured portion) of ¥54,987 million are excluded.

(Millions of Yen)

	December 31, 2020		
	Carrying amount	Fair value	Difference
(Financial assets)			
Financial assets for securities business	¥2,673,229	¥2,673,229	¥—
Loans for credit card business	2,033,013	2,086,898	53,885
Investment securities for banking business	266,227	266,269	42
Loans for banking business	1,436,513	1,440,470	3,957
Investment securities for insurance business	283,969	283,969	—
Derivative assets	32,644	32,644	—
Investment securities	275,236	275,306	70
Other financial assets (Note)	436,354	436,354	—
Total	7,437,185	7,495,139	57,954
(Financial liabilities)			
Deposits for banking business	4,716,162	4,716,216	54
Financial liabilities for securities business	2,587,227	2,587,227	—
Derivative liabilities	78,318	78,318	—
Bonds and borrowings	2,487,457	2,529,926	42,469
Total	9,869,164	9,911,687	42,523

(Note) Insurance business policy reserves (reinsured portion) of ¥56,332 million are excluded.

The measurement method of fair values is as follows.

- Financial assets for securities business

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

- Loans for credit card business and loans for banking business

The fair value of loans for credit card business and loans for banking business is based on present value calculated by discounting each portion of future cash flows classified by period, for the corresponding remaining maturity using the applicable interest rate considering credit risk.

- Investment securities for banking business, investment securities for insurance business and investment securities

Of investment securities for banking business, investment securities for insurance business and investment securities, fair value of listed shares is measured using the year-end closing market price, while fair value of unlisted shares is measured using an appropriate valuation technique, mainly by comparison with actual similar transactions. The fair value of bonds is based on reasonable valuation methods using available information, including trading statistics and brokers' quotes.

- Other financial assets
The fair value of other financial assets is based on present value calculated by discounting each portion of future cash flows classified by period, for the corresponding remaining maturity using the applicable interest rate considering credit risk.
- Derivative assets and liabilities
Within derivative assets and liabilities, fair value of forward exchange contracts is measured based on forward exchange rates. Trading derivatives for over-the-counter transaction are measured based on quotations provided by brokers. Fair value of interest rate swaps is based on present value calculated by discounting future cash flows for the remaining maturity using the rate of the interest rate swap at the end of year. Since counterparties of interest rate swap contracts are limited to financial institutions with superior credit ratings, consideration of credit risk is not incorporated in the calculation of fair value as it is minimal.
- Deposits for banking business
For demand deposits of the deposits for banking business, amounts payable on request at the year-end closing date (carrying amount) are considered to represent fair value. Fair value of time deposits is based on present value calculated by discounting each portion of future cash flows classified by period, for the corresponding remaining maturity, using the applicable interest rate considering credit risk. For time deposits with short remaining maturities (one year or less), the carrying amount is deemed as fair value as such fair value approximates the carrying amount.
- Financial liabilities for securities business
As financial liabilities for securities business are subject to short-term settlement, their fair values approximate their carrying amounts, and thus fair values are based on their carrying amounts.
- Bonds and borrowings
Within bonds and borrowings, fair values of those with longer remaining maturities is based on present value calculated by discounting each portion of future cash flows classified by period, for the corresponding remaining maturity, using the applicable interest rate considering credit risk.

Cash and cash equivalents, accounts receivable — trade, accounts payable — trade and other financial liabilities are financial instruments routinely based on fair value, or are mainly subject to short-term settlement and their fair values approximate their carrying amounts. Accordingly, they have not been included in the above table.

(2) Fair Value Hierarchy

The following table shows fair value measurement classified into one of three levels from Level 1 to Level 3 based on *the fair value hierarchy*.

[Definition of Each Level of Hierarchy]

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Fair value calculated by using inputs that are directly or indirectly observable for assets or liabilities, other than quoted prices included within Level 1
- Level 3: Fair value calculated by using the valuation technique including inputs that are unobservable

The Group Companies recognize transfers between each level in hierarchy at the end of the

quarter in which the events causing the transfers occur.

Classification by level of assets and liabilities based on fair value in the Consolidated Statements of Financial Position

For the year ended December 31, 2019

	(Millions of Yen)			
	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥948	¥—	¥948
Investment securities for banking business	129,286	—	129,547	258,833
Investment securities for insurance business	200,649	52,907	33,644	287,200
Investment securities	8,212	—	146,634	154,846
Other financial assets	—	—	7,616	7,616
Derivative assets/liabilities	8	17,870	—	17,878

There were no significant transfers between Level 1 and Level 2 during the year ended December 31, 2019.

For the year ended December 31, 2020

	(Millions of Yen)			
	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥849	¥—	¥849
Investment securities for banking business	97,327	—	155,805	253,132
Investment securities for insurance business	142,387	88,497	53,085	283,969
Investment securities	180,745	—	86,482	267,227
Other financial assets	—	—	11,348	11,348
Derivative assets/liabilities	—	(45,674)	—	(45,674)

There were no significant transfers between Level 1 and Level 2 during the year ended December 31, 2020.

Classification by level of assets and liabilities not based on fair value in the Consolidated Statements of Financial Position

For the year ended December 31, 2019

	(Millions of Yen)			
	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥1,974,986	¥75	¥1,975,061
Loans for credit card business	—	—	1,878,690	1,878,690
Investment securities for banking business	—	—	13,993	13,993
Loans for banking business	—	—	1,053,598	1,053,598
Investment securities	5,327	1,800	1,404	8,531
Other financial assets	—	—	327,631	327,631
Deposits for banking business	—	3,160,812	—	3,160,812
Financial liabilities for securities business	—	1,860,645	—	1,860,645
Bonds and borrowings	—	1,741,672	—	1,741,672

For the year ended December 31, 2020

	(Millions of Yen)			
	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥2,672,317	¥63	¥2,672,380
Loans for credit card business	—	—	2,086,898	2,086,898
Investment securities for banking business	—	—	13,137	13,137
Loans for banking business	—	—	1,440,470	1,440,470
Investment securities	5,275	2,000	804	8,079
Other financial assets	—	—	425,006	425,006
Deposits for banking business	—	4,716,216	—	4,716,216
Financial liabilities for securities business	—	2,587,227	—	2,587,227
Bonds and borrowings	—	2,529,926	—	2,529,926

(3) Reconciliation of Level 3 of the Hierarchy

The following reconciliation table indicates changes in the balances, from the beginning to the end of each year, of the financial instruments classified as Level 3, with one or more significant inputs not supported by observable market data.

For the year ended December 31, 2019

	(Millions of Yen)				
	Investment securities for banking business	Investment securities for insurance business	Investment securities	Other financial assets	Total
January 1, 2019	¥90,844	¥114,336	¥363,380	¥5,455	¥574,015
Gains or losses					
Net income (loss)	(23)	(52)	105,048	228	105,201
Other comprehensive income	(1)	1,696	10,443	—	12,138
Acquisition	300,613	6,325	23,453	3,016	333,407
Disposal	—	(75,021)	(10,958)	(72)	(86,051)
Issuance	—	—	—	—	—
Settlement	—	—	—	—	—
Redemption	(261,903)	(13,179)	(0)	(777)	(275,859)
Others (Note) 1	17	(461)	(26,578)	(234)	(27,256)
Transfer to Level 3	—	—	—	—	—
Transfer from Level 3 (Note) 2	—	—	(318,154)	—	(318,154)
December 31, 2019	129,547	33,644	146,634	7,616	317,441
Total net income on financial instruments held at the end of previous fiscal year	(23)	(52)	(4,960)	228	(4,807)

(Notes) 1. Certain investments which had previously been recognized as “investment securities”, were reclassified as “investments in associates and joint ventures” in the third quarter ended September 30, 2019. As a result, “investment securities” decreased by ¥24,432 million.

2. This transfer resulted from the listing of an investee as quoted share prices are now available.

Gains or losses included in net income during the year ended December 31, 2019 are included in “Revenue” and “Other Income”.

The fair value of unlisted shares classified in Level 3 is estimated based on the transaction comparison method. Other valuation methods and inputs are as follows.

Valuation method	Significant unobservable inputs	Range of unobservable inputs
Discounted cash flow method	Discount rate	13.5% - 15.5%
Method of comparison with similar sectors	Revenue multiple EBIT multiple	1.75 - 2.10 21 - 30

With regard to unobservable inputs, there is a correlation between the revenue multiple and EBIT multiple and fair value of stocks, in that when the multiples rise fair value of the shares increases. The rise in discount rate correlates with the decrease in fair value of shares.

For the year ended December 31, 2020

	(Millions of Yen)				
	Investment securities for banking business	Investment securities for insurance business	Investment securities	Other financial assets	Total
January 1, 2020	¥129,547	¥33,644	¥146,634	¥7,616	¥317,441
Gains or losses					
Net income (loss)	(28)	270	8,109	320	8,671
Other comprehensive income	(2)	2,138	512	—	2,648
Acquisition	415,148	23,036	5,106	13,713	457,003
Disposal	—	(1,360)	(52,933)	(252)	(54,545)
Issuance	—	—	—	—	—
Settlement	—	—	—	—	—
Redemption	(388,882)	(1,839)	—	(13,925)	(404,646)
Others	22	(1,817)	(4,209)	3,876	(2,128)
Transfer to Level 3	—	—	—	—	—
Transfer from Level 3 (Note)	—	(987)	(14,296)	—	(15,283)
Increase due to business combination	—	—	473	—	473
Decrease due to exclusion from consolidation	—	—	(2,914)	—	(2,914)
December 31, 2020	155,805	53,085	86,482	11,348	306,720
Total net income on financial instruments held at the end of current fiscal year	(28)	270	7,767	48	8,057

(Note) For “Investment securities,” the transfer resulted from the listing of an investee as quoted share prices are now available. For “Investment securities for insurance business,” the transfer resulted from significant inputs used to measure fair value becoming observable.

Gains or losses included in net income during the year ended December 31, 2020 are included in “Revenue” and “Other Income.”

The fair value of unlisted shares classified in Level 3 is estimated based on the transaction comparison method. Other valuation methods and inputs are as follows.

Valuation method	Significant unobservable inputs	Range of unobservable inputs
Discounted cash flow method	Discount rate	12.0% - 14.0%

With regard to unobservable inputs, the rise in discount rate correlates with the decrease in fair value of shares.

The fair values of unlisted shares, etc. are measured in accordance with rules specified by the administrative department independent of the sales department. In measuring fair value, the Group Companies use different valuation models that most appropriately reflects the property, characteristics, and risks of each asset. The reasons for the use of certain valuation models and fair value measurement processes are reported to department in charge of risk management to ensure the utilization of appropriate fair value measurement policies and procedures.

The fair values of investment securities for banking business are measured by the Risk Management Department in accordance with the official standard of market value calculation. Prices presented by transacting financial institutions and others are categorized by the type of investment securities. To validate the consistency of changes in these prices, movements in key data that may have an impact on changes in the market value of these categories of investment securities are carefully monitored. Validation results are reported to the Risk Management Committee, Management Meetings, and the Board of Directors on a monthly basis.

Operation and management of investment securities for insurance business are conducted in accordance with "Authorization Matrix Table" and "Regulation for Risk Management concerning Investment of Assets". The major shares are held to enhance relationships with our business partners. To validate the consistency of changes in these prices, the market environment of their business and their financial conditions are monitored.

For investment securities for banking business, investment securities for insurance business and investment securities which are classified as Level 3, if each input were to be changed to reasonable alternative assumptions, any resulting changes in fair value are not expected to be significant. Additionally, for other financial assets classified as Level 3, significant changes in fair value are not anticipated if each input were to be changed to reasonable alternative assumptions.

41. Offsetting of Financial Assets and Financial Liabilities

The Group Companies' gross amount before the offsetting of recognized financial assets and financial liabilities that are presented on a net basis after offsetting in the Consolidated Statements of Financial Position, the amount and the net balance after offsetting are as follows. Additionally, the potential effect of offsetting legally enforceable master netting arrangements or similar agreements relating to recognized financial assets or financial liabilities are disclosed for amounts that are not presented on a net basis.

As of December 31, 2019

(Financial assets that are presented on a net basis after offsetting in the Consolidated Statements of Financial Position, and legally enforceable master netting arrangements or similar agreements)
(Millions of Yen)

Financial assets	Type of transaction	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offset in the Consolidated Statements of Financial Position	Net amount of financial assets presented in the Consolidated Statements of Financial Position
Derivative assets	Derivatives	¥33,270	¥(5,220)	¥28,050
Financial assets for securities business	Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	406,325	—	406,325
	Accounts receivable, etc. relating to investment securities and other transactions, etc.	445,640	(206,992)	238,648
Other financial assets	Accounts receivable — other, etc.	62,756	(59,219)	3,537

(Millions of Yen)				
Type of transaction	Net amount of financial assets presented in the Consolidated Statements of Financial Position	Related amounts that are not presented on a net basis after offsetting in the Consolidated Statements of Financial Position		Net amount
		Financial instruments	Collateral received	
Derivatives	¥28,050	¥(4,488)	¥(16,185)	¥7,377
Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	406,325	(402,533)	—	3,792
Accounts receivable, etc. relating to investment securities and other transactions, etc.	238,648	(238,648)	—	—
Accounts receivable — other, etc.	3,537	—	—	3,537

(Financial liabilities that are presented on a net basis after offsetting in the Consolidated Statements of Financial Position, and legally enforceable master netting arrangements or similar agreements)

(Millions of Yen)				
Financial liabilities	Type of transaction	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offset in the Consolidated Statements of Financial Position	Net amount of financial liabilities presented in the Consolidated Statements of Financial Position
Derivative liabilities	Derivatives	¥15,392	¥(5,220)	¥10,172
Financial liabilities for securities business	Repurchase agreements, investment securities lending agreements and similar agreements	328,308	—	328,308
	Accounts payable, etc. relating to investment securities and other transactions, etc.	1,358,738	(206,992)	1,151,746
Other financial liabilities	Accounts payable — other, etc.	129,557	(59,219)	70,338

(Millions of Yen)				
Type of transaction	Net amount of financial liabilities presented in the Consolidated Statements of Financial Position	Related amounts that are not presented on a net basis after offsetting in the Consolidated Statements of Financial Position		Net amount
		Financial instruments	Collateral pledged	
Derivatives	¥10,172	¥(4,488)	¥(4,772)	¥912
Repurchase agreements, investment securities lending agreements and similar agreements	328,308	(321,053)	—	7,255
Accounts payable, etc. relating to investment securities and other transactions, etc.	1,151,746	(299,146)	(6,000)	846,600
Accounts payable — other, etc.	70,338	—	—	70,338

As of December 31, 2020

(Financial assets that are presented on a net basis after offsetting in the Consolidated Statements of Financial Position, and legally enforceable master netting arrangements or similar agreements)
(Millions of Yen)

Financial assets	Type of transaction	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offset in the Consolidated Statements of Financial Position	Net amount of financial assets presented in the Consolidated Statements of Financial Position
Derivative assets	Derivatives	¥41,386	¥(8,742)	¥32,644
Financial assets for securities business	Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	503,798	—	503,798
	Accounts receivable, etc. relating to investment securities and other transactions, etc.	882,073	(406,251)	475,822
Other financial assets	Accounts receivable — other, etc.	67,291	(59,896)	7,395

(Millions of Yen)

Type of transaction	Net amount of financial assets presented in the Consolidated Statements of Financial Position	Related amounts that are not presented on a net basis after offsetting in the Consolidated Statements of Financial Position		Net amount
		Financial instruments	Collateral received	
Derivatives	¥32,644	¥(4,793)	¥(20,683)	¥7,168
Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	503,798	(501,623)	—	2,175
Accounts receivable, etc. relating to investment securities and other transactions, etc.	475,822	(453,710)	—	22,112
Accounts receivable — other, etc.	7,395	—	—	7,395

(Financial liabilities that are presented on a net basis after offsetting in the Consolidated Statements of Financial Position, and legally enforceable master netting arrangements or similar agreements)

(Millions of Yen)				
Financial liabilities	Type of transaction	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offset in the Consolidated Statements of Financial Position	Net amount of financial liabilities presented in the Consolidated Statements of Financial Position
Derivative liabilities	Derivatives	¥87,060	¥(8,742)	¥78,318
Financial liabilities for securities business	Repurchase agreements, investment securities lending agreements and similar agreements	458,545	—	458,545
	Accounts payable, etc. relating to investment securities and other transactions, etc.	2,029,190	(406,251)	1,622,939
Other financial liabilities	Accounts payable — other, etc.	140,449	(59,896)	80,553

(Millions of Yen)				
Type of transaction	Net amount of financial liabilities presented in the Consolidated Statements of Financial Position	Related amounts that are not presented on a net basis after offsetting in the Consolidated Statements of Financial Position		Net amount
		Financial instruments	Collateral pledged	
Derivatives	¥78,318	¥(4,783)	¥(6,655)	¥66,880
Repurchase agreements, investment securities lending agreements and similar agreements	458,545	(453,773)	—	4,772
Accounts payable, etc. relating to investment securities and other transactions, etc.	1,622,939	(606,419)	—	1,016,520
Accounts payable — other, etc.	80,553	—	—	80,553

The right to offset financial assets and liabilities subject to legally enforceable master netting agreements or other similar agreements that are not presented on a net basis after offsetting in the statement of financial position becomes enforceable and affects the realization or settlement of individual financial assets and liabilities only following a default or other specified circumstances not expected to arise in the normal course of business.

42. Lease Accounting

The Group Companies, as the lessee, mainly leases offices, warehouses, data centers and telecommunications facilities.

Information on leases, with the Group Companies as the lessee, is as follows.

(1) Amounts recognized in the Consolidated Statements of Financial Position

(Millions of Yen)

	December 31, 2019	December 31, 2020
Right-of-use assets		
Offices as the underlying assets	¥74,437	¥73,026
Warehouses as the underlying assets	41,737	81,998
Data centers as the underlying assets	9,044	15,684
Telecommunications facilities as the underlying assets	39,846	92,287
Other underlying assets	16,931	16,681
Total right-of-use assets (Note) 1	181,995	279,676
Lease liabilities (Note) 2	180,512	280,760

(Notes) 1. Offices, warehouses, data centers and telecommunications facilities are mainly buildings and accompanying facilities.

2. Lease liabilities are included in "Other financial liabilities" in the Consolidated Statements of Financial Position.

(2) Amounts recognized in the Consolidated Statements of Income

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Depreciation associated with right-of-use assets		
Offices as the underlying assets	¥9,422	¥13,636
Warehouses as the underlying assets	6,067	9,477
Data centers as the underlying assets	1,120	2,623
Telecommunications facilities as the underlying assets	1,814	7,601
Other underlying assets	2,071	2,381
Total depreciation associated with right-of-use assets (Note) 1	20,494	35,718
Interest expense associated with lease liabilities (Note) 2	611	1,176

(Notes) 1. Depreciation associated with right-of-use assets is included in "Operating expenses" of the Consolidated Statements of Income.

2. Interest expense associated with lease liabilities are included in "Financial expenses" of the Consolidated Statements of Income.

(3) Cash flows associated with leases

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Total cash outflows associated with leases	¥20,023	¥37,981

(4) Extension options and termination options

Certain lease contracts have extension options and/or termination options, which may be exercised by the Group Companies, and the Group Companies may exercise such options, as necessary. The Group Companies assess whether it is reasonably certain the extension option will be exercised or the termination option will not be exercised at the commencement date of the lease term. Given that the lease term is determined for each lease transaction on the assumption of a reasonably certain contractual period, the lease term includes leases that anticipate the extension option will be exercised and those that anticipate the termination option will not be exercised.

Major extension options and termination options are as follows:

- Office contracts: Automatic extension option (excluding fixed-term lease and rental contracts)
- Certain warehouse contracts: Leases cancellable by opting in the 10th year, within non-cancellable contracts (15-year contracts)

(5) Contracted leases that have not yet commenced

The amount of future cash outflows to which the Group Companies are potentially exposed due to leases that have been contracted but have not yet commenced as of December 31, 2020 is ¥15,306 million.

43. Financial Risk Management

The objective of the Group Companies' investment activities is to protect the principal and ensure the efficient use of funds by fully taking into account various risks including credit risk, market risk and liquidity risk. In addition, in view of factors such as the current economic environment, the Group Companies' fund-raising activities are based on the best conceivable choice of the alternative options among direct as well as indirect financing methods.

In the securities business, the Group Companies focus on the brokerage and intermediary services of financial instruments including stocks for individual customers, and under the Financial Instruments and Exchange Act invest the deposits and guarantee deposits received from customers that have been segregated in trusts for customers for separate management. When utilizing funds, importance is placed on the safety of investments, such as bank deposits and financial assets with high liquidity, while fund-raising is conducted mainly by borrowing from financial institutions.

In the credit card business (including the comprehensive credit purchase intermediation business, individual credit purchase intermediation business, credit guarantee business and loan business), the Group Companies restrict their investment of funds to short-term deposits. Meanwhile, funding is obtained through borrowings from banks and other financial institutions and through direct financing by issuance of commercial papers, issuance of corporate bonds and securitization of receivables.

In the banking business, the Group Companies primarily focus on deposit-taking, lending and exchange business, and mainly offer ordinary deposits, time deposits and foreign currency deposits. In addition, using such financial liabilities as major resources, the Group Companies mainly provide

guaranteed unsecured card loans, residential mortgages and business loans, as well as engaging in investment activities through investment securities, monetary claims purchased, monetary trusts and call loans, along with derivative transactions and foreign exchange transactions associated with the sales of financial instruments to customers. In asset management, the Group Companies are always aware of the significance of a bank's social responsibility and public mission, which strictly restrains it from entering into investment transactions beyond its management capacity in the undue pursuit of profit, and emphasis is placed on investing deposits entrusted by customers with full consideration of safety. Furthermore, to ensure an optimum asset and liability structure along with appropriate capital adequacy over the entire financial operations from funding to investment, the Group Companies engage in Asset and Liability Management (ALM) focused on interest rate sensitivity, funding liquidity and market liquidity.

In the insurance business, the Group Companies consider ensuring safety and profitability as their priority mission in asset management, in order to honor their commitment to the reliable payment of insurance claims and benefits over the years to come. Their policy in asset management is to invest mainly in public bonds seeking to disperse risks with an aim to receive consistent investment yields over the medium to long-term, in an effort to develop a safety-first liquidity and profitability-oriented sound investment portfolio.

Under the corporate policy, derivative transactions are handled responsibly, never to be entered into as speculative instruments.

(1) Credit Risk

1) Outline of Credit Risk Associated with Financial Instruments

Financial assets held by the Group Companies mainly comprise accounts receivable-trade, financial assets for securities business, loans for credit card business, investment securities for banking business, loans for banking business, investment securities for insurance business and investment securities.

Accounts receivable — trade mainly include accounts receivable relating to sales revenue from individual customers of the internet service business, merchants, hotels and other clients, and are exposed to the credit risk of these clients.

Financial assets for securities business include cash segregated as deposits for securities business and margin transaction assets. Cash segregated as deposits for securities business are primarily trust segregated for customer's money, which are invested in bank deposits, thus exposed to the credit risk of the deposit-taking financial institutions. Margin transaction assets are exposed to customers' credit risk.

Loans for credit card business include credit card receivables, loan receivables, consumer loans and secured loans held by the subsidiaries engaged in the credit card business. These are exposed to credit risk associated with respective debtors.

Investment securities for banking business mainly include securities in domestic bonds and foreign bonds, as well as trust beneficiary rights. Such securities are exposed to credit risk of the issuers as well as underlying assets.

Loans for banking business include unsecured card loans, residential mortgages, real estate mortgages and business loans for individual customers, which are exposed to credit risk of customers.

Investment securities for insurance business include government bonds, municipal bonds and corporate bonds, and are exposed to credit risk related to the financial position of issuers.

Investment securities include debt instruments, etc., which are exposed to credit risk of issuers.

These financial assets are well diversified both in terms of the investees' types of business and their geographical locations, avoiding particular concentration of credit risk.

2) Management System of Credit Risks Associated with Financial Instruments

Specific methods and systems to manage various risks within the Group Companies are set out under risk management regulations established at each Group Company. Additionally, with regard to financial assets for securities business and loans for banking business, the Group Companies engage in activities to reasonably mitigate the credit risk through collateral and debt guarantees.

Credit risks are managed under the group management regulations, through establishing individual credit limits, understanding the credit status of individual customers, and controlling due dates and loan balances on a regular basis, while efforts are made on early detection and mitigation of the risk of default resulting from deterioration of borrowers' financial conditions and other factors. In addition to the customers' financial information obtained through the course of such credit administration, expected credit loss is recognized and measured by considering macroeconomic factors such as the unemployment rate and the number of corporate bankruptcy cases.

With regard to financial assets for securities business and loans for credit card business and banking business, as a general rule, if the repayment or the settlement of the financial assets becomes more than 30 days overdue, the credit risk of the financial instrument is determined to have significantly increased since initial recognition.

With regard to investment securities which are considered to be debt instruments within the investments securities for banking business, the investment securities for insurance business, and investments securities, if the financial instrument, which had been investment grade at initial recognition, is downgraded to below investment grade, the credit risk of the financial instrument is determined to have significantly increased. Additionally, upon referencing third-party ratings, if the credit risk as of the reporting date is deemed to be small, the credit risk of such financial instrument is presumed not to have significantly increased. Ratings information provided by major rating organizations is used for the determination of credit risk.

With regard to these financial assets, as a general rule, if the repayment or the settlement becomes more than 90 days overdue, the contractual conditions have been modified, or recovery has been deemed to be extremely difficult, it is determined that a default has occurred.

Derivative transactions are managed under hedge transaction management rules. While credit risk is deemed to be minimal because the counterparties are mainly financial institutions with high credit ratings, the derivative transactions are exposed to the risk of financial loss resulting from the counterparty's contractual default.

3) Change analysis of allowance for doubtful accounts
As of December 31, 2019

(Millions of Yen)

	12-months expected credit losses	Lifetime expected credit loss			Total
		Financial assets with credit risk which has significantly increased since initial recognition	Financial assets impaired	Financial assets with allowance for doubtful accounts measured at an amount equal to lifetime expected credit losses	
January 1, 2019	¥19,876	¥4,036	¥68,753	¥7,816	¥100,481
Increase for the period (provision)	843	4,483	36,205	1,921	43,452
Decrease for the period (intended use)	(34)	(168)	(34,818)	(2,574)	(37,594)
Decrease for the period (reversal)	—	(27)	—	(67)	(94)
Reclassification for the period	(354)	(3,416)	3,770	—	—
Other changes for the period	(96)	(3)	(176)	739	464
December 31, 2019	20,235	4,905	73,734	7,835	106,709

The above table includes allowances for doubtful accounts for the debt instruments based on fair value and recognized as other comprehensive income.

As of December 31, 2020

(Millions of Yen)

	12-months expected credit losses	Lifetime expected credit loss			Total
		Financial assets with credit risk which has significantly increased since initial recognition	Financial assets impaired	Financial assets with allowance for doubtful accounts measured at an amount equal to lifetime expected credit losses	
January 1, 2020	¥20,235	¥4,905	¥73,734	¥7,835	¥106,709
Increase for the period (provision)	524	4,570	41,098	2,955	49,147
Decrease for the period (intended use)	(20)	(299)	(41,777)	(1,750)	(43,846)
Decrease for the period (reversal)	(119)	(52)	—	—	(171)
Reclassification for the period	(206)	(3,895)	4,101	—	—
Other changes for the period	(20)	1	492	(291)	182
December 31, 2020	20,394	5,230	77,648	8,749	112,021

The above table includes the allowances for doubtful accounts for the debt instruments based on fair value and recognized as other comprehensive income.

4) Exposure to Credit Risks

The Group Companies' maximum exposure to credit risk is as follows:

The maximum credit risk exposure represents the maximum exposure to credit risk without taking into account the collateral held by the Group Companies and any other credit enhancement.

The maximum exposure to credit risk associated with financial assets stated as on-balance sheet items recognized in the Statements of Financial Position in the following table, are the same as their carrying amounts. The maximum exposure to credit risk associated with commitment line agreements stated as off-balance sheet items in the following table, is the unused portion of such commitment lines. Meanwhile, the maximum exposure to credit risk associated with financial guarantee agreements is the maximum amount payable in the event that exercise of the guarantee is requested.

Exposure to Credit Risks of Operating Receivables, etc.
As of December 31, 2019

(Millions of Yen)

	Classification by creditworthiness		Total	Allowance for doubtful accounts	Maximum credit risk exposure
	Financial assets not impaired	Financial assets impaired			
On-balance sheet Items:					
Accounts receivable — trade (Note)	¥219,197	¥11,191	¥230,388	¥(8,024)	¥222,364
Other financial assets (Note)	130,808	738	131,546	(826)	130,720
Total:	350,005	11,929	361,934	(8,850)	353,084

(Note) Applies only to financial instruments with allowance for doubtful accounts are always based on amounts equal to lifetime expected credit loss and there are no categories that depend on whether a significant increase in credit risk since initial recognition has taken place, as they do not contain a significant financing component.

As of December 31, 2020

(Millions of Yen)

	Classification by creditworthiness		Total	Allowance for doubtful accounts	Maximum credit risk exposure
	Financial assets not impaired	Financial assets impaired			
On-balance sheet Items:					
Accounts receivable — trade (Note)	¥236,129	¥16,705	¥252,834	¥(8,950)	¥243,884
Other financial assets (Note)	215,329	1,158	216,487	(4,514)	211,973
Total:	451,458	17,863	469,321	(13,464)	455,857

(Note) Applies only to financial instruments with allowance for doubtful accounts are always based on amounts equal to lifetime expected credit loss and there are no categories that depend on whether a significant increase in credit risk since initial recognition has taken place, as they do not contain a significant financing component.

Exposure to Credit Risks of Receivables Other Than Operating Receivables, etc.
As of December 31, 2019

(Millions of Yen)

	Classification by creditworthiness			Total	Allowance for doubtful accounts (Note)	Maximum credit risk exposure
	12-months expected credit losses	Financial assets with credit risk which has significantly increased since initial recognition	Financial assets impaired			
On-balance sheet Items:						
Cash and cash equivalents	¥1,478,557	¥—	¥—	¥1,478,557	¥—	¥1,478,557
Financial assets for securities business	1,975,047	1	2,115	1,977,163	(2,102)	1,975,061
Loans for credit card business	1,793,588	11,451	105,801	1,910,840	(82,624)	1,828,216
Investment securities for banking business	270,178	995	280	271,453	(99)	271,354
Loans for banking business	1,062,275	202	470	1,062,947	(12,954)	1,049,993
Investment securities for insurance business	75,117	—	—	75,117	—	75,117
Investment securities	8,413	—	—	8,413	—	8,413
Other financial assets	196,944	—	0	196,944	(34)	196,910
Total of On-balance sheet items:	6,860,119	12,649	108,666	6,981,434	(97,813)	6,883,621
Off-balance sheet items:						
Commitment lines	—	—	—	—	—	3,882,138
Financial guarantee agreements	—	—	—	—	—	6,180
Total of Off-balance sheet items:	—	—	—	—	—	3,888,318
Total	6,860,119	12,649	108,666	6,981,434	(97,813)	10,771,939

(Note) Allowance for doubtful accounts of debt instruments measured at FVTOCI is not included.

- *1 With regard to credit-impaired financial assets, the allowance for doubtful accounts has been reduced by ¥467 million in the fiscal year 2019 as a result of collateral and other credit enhancements.
- *2 Regarding the financial assets with terms and conditions modified when customers or clients request modification of payment due dates of financial assets, the Group Companies may change the repayment contract terms and modify the initial contractual cash flows so as to facilitate the recovery of the financial assets. In the fiscal year 2019, with regard to the financial assets whose allowance for doubtful accounts were based on an amount equivalent to estimated credit loss over the entire period, the amortized cost of the financial asset prior to the modification and net losses recognized as a result of the contractual cash flow modification were ¥21,480 million and ¥5,671 million, respectively.

As of December 31, 2020

(Millions of Yen)

	Classification by creditworthiness			Total	Allowance for doubtful accounts (Note)	Maximum credit risk exposure
	12-months expected credit losses	Financial assets with credit risk which has significantly increased since initial recognition	Financial assets impaired			
On-balance sheet Items:						
Cash and cash equivalents	¥3,021,306	¥—	¥—	¥3,021,306	¥—	¥3,021,306
Financial assets for securities business	2,672,199	2	2,063	2,674,264	(1,884)	2,672,380
Loans for credit card business	1,994,971	12,456	109,931	2,117,358	(84,345)	2,033,013
Investment securities for banking business	264,965	9	12	264,986	(12)	264,974
Loans for banking business	1,446,501	82	2,114	1,448,697	(12,184)	1,436,513
Investment securities for insurance business	129,554	—	—	129,554	—	129,554
Investment securities	8,009	—	—	8,009	—	8,009
Other financial assets	207,596	2,165	3,324	213,085	(52)	213,033
Total of On-balance sheet items:	9,745,101	14,714	117,444	9,877,259	(98,477)	9,778,782
Off-balance sheet items:						
Commitment lines	—	—	—	—	—	4,390,034
Financial guarantee agreements	—	—	—	—	—	5,024
Total of Off-balance sheet items:	—	—	—	—	—	4,395,058
Total	9,745,101	14,714	117,444	9,877,259	(98,477)	14,173,840

(Note) Allowance for doubtful accounts of debt instruments measured at FVTOCI is not included.

- *1 With regard to credit-impaired financial assets, the allowance for doubtful accounts has been reduced by ¥2,099 million in the fiscal year 2020 as a result of collateral and other credit enhancements.
- *2 Regarding the financial assets which terms and conditions are modified when customers or clients request modification of payment due dates of financial assets, the Group Companies may change the repayment contract terms and modify the initial contractual cash flows so as to facilitate the recovery of the financial assets. In the fiscal year 2020, with regard to the financial assets with allowance for doubtful accounts based on an amount equivalent to estimated credit loss over the entire period, the amortized cost of the financial asset prior to the modification and net losses recognized as a result of the contractual cash flow modification were ¥25,041 million and ¥6,607 million, respectively.

5) Past due information of financial assets

Aging analysis of past due financial assets is as follows.

In the following aging analysis, amounts of financial assets, for which the payment terms have been extended or payment has not been made since the contractual due dates, are classified according to the length of the overdue period from the respective due dates for each fiscal year.

Past due information of operating receivables, etc.

As of December 31, 2019

	(Millions of Yen)		
	Three months or less	Over three months to one year	Over one year
Accounts receivable — trade	¥17,712	¥3,425	¥7,765
Other financial assets	490	635	104
Total	18,202	4,060	7,869

As of December 31, 2020

	(Millions of Yen)		
	Three months or less	Over three months to one year	Over one year
Accounts receivable — trade	¥17,986	¥6,805	¥9,900
Other financial assets	1,381	771	388
Total	19,367	7,576	10,288

Past due information of those other than operating receivables, etc.

As of December 31, 2019

	(Millions of Yen)		
	30 days or less	Over 30 days to 90 days	Over 90 days
Financial assets for securities business	¥20	¥3	¥2,113
Loans for credit card business	131,107	16,441	40,119
Investment securities for banking business	559	73	428
Loans for banking business	4,368	202	470
Other financial assets	99	—	284
Total	136,153	16,719	43,414

As of December 31, 2020

	(Millions of Yen)		
	30 days or less	Over 30 days to 90 days	Over 90 days
Financial assets for securities business	¥22	¥2	¥2,063
Loans for credit card business	125,397	17,513	38,197
Investment securities for banking business	20	9	13
Loans for banking business	3,385	82	2,114
Other financial assets	9	2,853	59
Total	128,833	20,459	42,446

(2) Liquidity Risk

1) Outline of Liquidity Risk Associated with Financial Instruments

Within financial liabilities held by the Group Companies, bonds and borrowings and deposits for banking business are mainly exposed to liquidity risks. Bonds and borrowings are exposed to the risk of deteriorating funding conditions as a result of changes in the creditworthiness of the Group Companies against the transacting financial institutions and changes in the market environment.

In addition, certain borrowings of the Group Companies require compliance with covenants clauses such as maintaining equity and earnings.

2) Management of Liquidity Risk Associated with Financial Instruments

Methods to control liquidity risk associated with funding include a cash management plan to ensure adequate liquidity on hand in accordance with regulations established by each Group Company.

3) Analysis of Maturity of Financial Liabilities

The balances by maturity of financial liabilities (including derivatives) are as follows:

As of December 31, 2019

	(Millions of Yen)					
	One year or less	Over one year to two years	Over two years to three years	Over three years to four years	Over four years to five years	Over five years
Financial liabilities other than derivatives						
Accounts payable — trade	¥329,483	¥—	¥—	¥—	¥—	¥—
Deposits for banking business	3,131,429	18,346	3,115	2,758	3,026	1,427
Financial liabilities for securities business	1,860,645	—	—	—	—	—
Bonds and borrowings	589,379	137,992	232,082	339,218	191,180	250,661
Lease liabilities	25,902	26,812	25,115	24,855	23,246	55,643
Other financial liabilities excluding lease liabilities	495,052	126,336	16,685	963	838	54
Derivative liabilities	10,181	438	624	54	522	—
Off-balance sheet items						
Commitment lines	3,882,138	—	—	—	—	—
Financial guarantee agreements	6,180	—	—	—	—	—

(Note) Financial liabilities payable on demand are classified as “One year or less.” “Deposits for banking business” include ¥2,565,702 million of demand deposits.

As of December 31, 2020

(Millions of Yen)

	One year or less	Over one year to two years	Over two years to three years	Over three years to four years	Over four years to five years	Over five years
Financial liabilities other than derivatives						
Accounts payable — trade	¥337,427	¥—	¥—	¥—	¥—	¥—
Deposits for banking business	4,696,311	8,048	4,805	2,639	2,961	1,031
Financial liabilities for securities business	2,587,227	—	—	—	—	—
Bonds and borrowings	1,142,884	208,006	342,297	389,861	170,214	252,824
Lease liabilities	38,969	39,484	37,248	34,316	29,144	102,066
Other financial liabilities excluding lease liabilities	640,131	124,832	6,779	6,453	48,175	24,375
Derivative liabilities	10,890	675	202	741	43,705	21,838
Off-balance sheet items						
Commitment lines	4,390,034	—	—	—	—	—
Financial guarantee agreements	5,024	—	—	—	—	—

(Note) Financial liabilities payable on demand are classified as “One year or less.” “Deposits for banking business” include ¥4,213,787 million of demand deposits.

(3) Market Risk

1) Outline of Market Risk Associated with Financial Instruments

The Group Companies’ activities are exposed mainly to risks associated with changes in the economic environment and the financial market environment. Risks associated with changes in the financial market environment are specifically, exchange rate risk, interest rate risk and price fluctuation risk.

Financial assets held by the Group Companies exposed to market risks are mainly financial assets for securities business, investment securities for banking business, investment securities for insurance business, and investment securities.

Financial assets for securities business include foreign exchange margin transactions in the securities business. However, the exposure to exchange rate risk is minimal, in principle, as the Group Companies enter into cover deals with counterparties to mitigate market risks associated with these transactions with customers.

Investment securities for banking business mainly include securities in domestic bonds and foreign bonds, as well as trust beneficiary rights. Such securities are exposed to interest rate risk and exchange rate risk. Exchange rate risks of foreign bonds are hedged by entering into corresponding forward exchange contracts and by managing positions. Furthermore, exposure to price fluctuation risk is minimal, as the Group Companies’ subsidiaries engage in the banking business do not hold any listed shares.

Investment securities for insurance business mainly include government bonds, municipal bonds, corporate bonds, shares and investment trust funds, which are exposed to exchange rate risk and price fluctuation risk.

Investment securities include shares that are exposed to price fluctuation risk.

Within the financial liabilities held by the Group Companies, those exposed to market risks are mainly bonds and borrowings and banking business-related liabilities, which are exposed primarily to interest rate risk and exchange rate risk. Risks of bonds and borrowings are hedged by entering into corresponding interest rate swap transactions and currency swap transactions. Banking business-related liabilities include ordinary deposits, general time deposits and new types of time deposits for individual and corporate customers, as well as foreign currency ordinary deposits and foreign currency time deposits. Although new types of time deposits are exposed to interest rate risk, such risk is hedged by entering into corresponding interest rate swap transactions. Although foreign currency ordinary deposits and foreign currency time deposits are exposed to exchange rate risk, such risk is hedged by entering into corresponding forward exchange contracts.

2) Control system of Market Risks Associated with Financial Instruments

To control market risks, investment securities are subject to investment decisions based on discussion upon the Board of Directors, and it is ensured that such investment securities are appropriately evaluated according to internal regulations. With regard to foreign currency-denominated financial instruments, exchange markets are continuously monitored and the Group Companies' own positions are regulated by establishing position limits and maximum allowable losses for the prevention of any loss in excess of certain levels.

With regard to financial assets held by certain subsidiaries engaged in the banking business, such financial assets and liabilities are based on fair value assuming certain fluctuations in interest rates and exchange rates, and the effects on the net balance after offsetting such financial assets and liabilities (hereinafter referred to as the "present value") are used in a quantitative analysis to manage interest rate risk and exchange rate risk.

Financial assets held by certain subsidiaries engaged in the insurance business are measured and managed using such parameters as Value at Risk (hereinafter referred to as the "VaR"), which quantifies the maximum expected loss which could occur during a given holding period and at a given probability, and reported periodically to the Board of Directors through the Asset Management Risk Management Committee.

3) Interest Rate Risk (Excluding the Subsidiaries Engaged in Banking Business)

The Group Companies' main financial liabilities are borrowings from financial institutions, of which borrowings at floating interest rates are exposed to interest rate risk.

Exposures associated with the Group Companies' financial liabilities are as follows:
(Millions of Yen)

	December 31, 2019	December 31, 2020
Bonds and borrowings	¥1,727,096	¥2,487,457
Floating interest rate	750,510	406,662
Fixed interest rate	976,586	2,080,795

In respect of the above exposures, given all the risk variables remaining constant, except for interest rate risk, if all the key interest rates increased by 10 basis points (0.1%) for the year ended December 31, 2019, income and equity would be negatively impacted by ¥637 million. Conversely, in the event a decrease of 0.1%, income and equity would be positively impacted by ¥637 million compared to the amounts reported as of December 31, 2019. Similarly, given all the risk variables remaining constant, except for interest rate risk, if all the key interest rates increased by 10 basis points (0.1%) for the year ended December 31, 2020, income and equity would be negatively impacted by ¥273 million. Conversely, in the event a decrease of 0.1%, income and equity would be positively impacted by ¥273 million compared to the amounts reported as of December 31, 2020.

Within bonds and borrowings with floating interest rates, the Group Companies have implemented interest rate swap transactions to reduce interest rate fluctuation risk, and the balances of fixed interests were ¥113,416 million and ¥133,175 million as of December 31, 2019 and 2020, respectively.

4) Price Fluctuation Risk

Of the equity instruments held by the Group Companies, marketable equity instruments are exposed to share price fluctuation risk. The Group Companies regularly check the market prices of their equity instruments and financial conditions of their issuers.

The Group Companies carried out a sensitivity analysis as follows, based on the price risk of equity instruments at the end of the year.

In the event of a 5% rise in share prices, accumulated net income (before tax effect) would increase by ¥85 million for the year ended December 31, 2019 due to changes in fair value. Conversely, in the event of a 5% fall, it would decrease by ¥85 million. Similarly, in the event of a 5% rise in share prices, accumulated net income (before tax effect) would increase by ¥18 million for the year ended December 31, 2020 due to changes in fair value excluding Lyft shares. Conversely, in the event of a 5% fall, it would decrease by ¥18 million.

In the event of a 5% rise in share prices, accumulated other comprehensive income (before tax effect) would increase by ¥174 million for the year ended December 31, 2019 due to changes in fair value. Conversely, in the event of a 5% fall, it would decrease by ¥174 million. Similarly, in the event of a 5% rise in share prices, accumulated other comprehensive income (before tax effect) would increase by ¥200 million for the year ended December 31, 2020 due to changes in fair value. Conversely, in the event of a 5% fall, it would decrease by ¥200 million.

The Company has concluded a derivative contract related to Lyft shares in accordance with the Prepaid Variable Share Forward Transactions of Lyft shares. The fair value of this derivative transaction is impacted by the share price of Lyft shares. Given all other variables remaining constant, in the event of a 10% rise in the share price of Lyft shares, income before income tax would result in the recording of a loss of ¥14,653 million. As for the fair value of Lyft shares, in the event of a 10% rise in the share price, income before income tax would result in the recording of an income of ¥15,909 million. Details of the transaction under the forward contract are stated in Note 22. Other Financial Liabilities "(Note) Prepaid Variable Share Forward Transactions of Lyft

shares.”

5) Management of Market Risks for Subsidiaries Engaged in Banking Business
(Management of Interest Rate Risk)

At the Group Companies' certain subsidiaries engaged in the banking business, financial assets exposed to interest rate risk, which is a significant risk variable, are mainly investment securities for banking business, monetary claims purchased and loans for banking business. Financial liabilities exposed to interest rate risk include ordinary deposits, general time deposits and new types of time deposits for individual and corporate customers, as well as foreign currency ordinary deposits, foreign currency time deposits and interest rate swap transactions as part of derivative transactions.

For these subsidiaries, the effect of present value of these financial assets and liabilities, given certain fluctuations in interest rates, is used in quantitative analysis as part of the process to manage interest rate risk.

In calculating the effect of present value, the corresponding financial assets and financial liabilities are classified into a fixed rate group and a floating rate group, and then the balance of each group is allocated to an appropriate period based on maturity with a fluctuation range of the interest rate for the period. Specifically, given all the other risk variables remaining constant, except for the interest rate risk, when all the key interest rates increase 10 basis points (0.1%) for the year ended December 31, 2019, present value as of December 31, 2019 would decrease by ¥681 million. Conversely, in the case of a decrease of 10 basis points (0.1%), it would increase by ¥681 million. Similarly, given all the other risk variables remaining constant, except for the interest rate risk, when all the key interest rates increase 10 basis points (0.1%) for the year ended December 31, 2020, present value as of December 31, 2020 would decrease by ¥1,171 million. Conversely, decrease of 10 basis points (0.1%), it would increase by ¥1,171 million.

These effects do not take into account correlations between interest rates and other risk variables, further foreign currency-denominated assets and liabilities are calculated in Japanese yen as translated by the exchange rates on December 31, 2019 and 2020. Additionally, the effects of a 10 basis point decline leading to negative interest rates in certain periods have not been excluded.

6) Management of Market Risks for Subsidiaries Engaged in Insurance Business
(Management of Market Risk)

At the Group Companies' subsidiaries engaged in the insurance business, financial assets exposed to exchange rate risk, interest rate risk and price fluctuation risk are mainly the investment securities for the insurance business. These risks are managed by measuring their risk volume using VaR.

In the measurement of VaR, the historical simulation method (time period: 6 months, confidence level: 99%) was used, and as of December 31, 2019, total market risk volume was ¥15,106 million. Similarly, as of December 31, 2020, total market risk volume was ¥6,252 million. It should be noted that VaR calculates market risk volume based on historical market fluctuations at a given, statistically calculated rate of probability, and may not be able to quantify risk in situations in which the market environment undergoes drastic changes incomprehensible under normal circumstances.

44. Capital Management

The Group Companies' capital structure is as follows:

	(Millions of Yen)	
	December 31, 2019	December 31, 2020
Total liabilities	¥8,428,497	¥11,895,424
Less: Cash and cash equivalents	1,478,557	3,021,306
Net liabilities	6,949,940	8,874,118
Total equity	737,200	629,014

Certain subsidiaries of the Group Companies are required to maintain their capital-to-risk ratio and net assets, etc. above a certain level in accordance with the Japanese Financial Instruments and Exchange Act and other laws and regulations of a similar nature in foreign jurisdictions. Principal laws and regulations in each country and region applicable to the major subsidiaries are described in the chart as follows.

Country and region	Company name	Laws and regulations	Requirements
Japan	Rakuten Bank, Ltd.	Banking Law	Maintenance of minimum required equity ratio, etc.
	Rakuten Securities, Inc.	Financial Instruments and Exchange Act	Maintenance of minimum required capital-to-risk ratio, etc.
	Rakuten Life Insurance Co., Ltd.	Insurance Business Act	Maintenance of solvency margin ratio
	Rakuten General Insurance Co., Ltd.	Insurance Business Act	Maintenance of solvency margin ratio
Hong Kong	Rakuten Securities Hong Kong Limited	Securities and Futures Ordinance (Cap. 571)	Maintenance of minimum required capital, etc.
Europe	Rakuten Europe Bank S.A.	Capital Requirements Regulation (EU) No 575/2013	Maintenance of minimum required capital, etc.
Taiwan	Rakuten International Commercial Bank Co., Ltd.	Regulations Governing the Capital Adequacy and Capital Category of Banks	Maintenance of minimum required capital, etc.

Each subsidiary adequately meets the capital requirements under the laws and regulations of each country and region.

45. Related Parties

Related party transactions and their corresponding outstanding balances of receivables and payables between the Group Companies and other related parties are as follows. Although the consolidated subsidiaries are related parties of the Company, such transactions and the corresponding outstanding balances with subsidiaries are not subject to disclosure as they are eliminated for the purpose of Consolidated Financial Statements.

(1) Related Party Transactions

	(Millions of Yen)					
	Year ended December 31, 2019			Year ended December 31, 2020		
	Associates	Executives	Total	Associates	Executives	Total
Revenue	¥2,239	¥—	¥2,239	¥727	¥—	¥727
Operating expenses	2,667	—	2,667	2,469	—	2,469
Accounts receivable — trade	656	—	656	530	—	530
Other financial assets (Note 1)	2,419	—	2,419	4,959	55	5,014
Investments in associates and joint ventures (Note 2)	982	—	982	8,393	—	8,393
Property, plant and equipment	—	—	—	3,056	—	3,056
Intangible assets	787	—	787	1,933	—	1,933
Deposits for banking business	—	607	607	—	553	553
Financial liabilities for securities business	—	29	29	—	67	67
Other financial liabilities	17,248	—	17,248	16,311	—	16,311
Other liabilities	182	—	182	677	—	677
Capital surplus	—	(4)	(4)	—	(30)	(30)
Disposal of treasury stock on exercise of share options	—	66	66	—	235	235

- (Notes) 1. An allowance for doubtful accounts of ¥628 million and ¥647 million has been recorded against other financial assets at December 31, 2019 and 2020, respectively.
2. “Investments in associates and joint ventures” at December 31, 2019 and 2020 mainly refers to increased investments carried out by associate companies.
3. There are no transactions involving collateral and guarantees.

(2) Transactions with Companies in which Majority of Voting Rights are Held by the Group Companies' Executives, Principal Shareholders (Individuals) and their Close Relatives

	(Millions of Yen)	
	Year ended December 31, 2019	Year ended December 31, 2020
Operating expenses (Note 1)	¥157	¥141
Deposits for banking business (Note 2)	—	149
Other financial liabilities (Note 3)	21	33

(Notes) 1. Operating expenses for the years ended December 31, 2019 and 2020 are mainly attorneys' fees and expenses paid to Nishimura & Asahi, which are determined in the same manner as general terms of transactions.

2. Deposits for banking business for the year ended December 31, 2020 are deposits received from Crimson Group, LLC.

3. Other financial liabilities for the years ended December 31, 2019 and 2020 are accounts payable — other related to attorneys' fees and expenses to Nishimura & Asahi.

(3) Executive Compensation

Executive compensation is as follows:

	(Millions of Yen)	
	Year ended December 31, 2019	Year ended December 31, 2020
Short-term employee benefits (Note)	¥709	¥798
Share-based payments	782	519
Total	1,491	1,317

(Note) Executive compensation comprises compensation to the officers of Rakuten, Inc. and other executives. Short-term employee benefits include bonuses for those employees who serve concurrently as employees and Directors.

46. Major Subsidiaries

(1) Major Subsidiaries

Major subsidiaries of the Group Companies are as follows:

Name	Location	Capital	December 31, 2019		December 31, 2020		Notes
			Voting rights ratio	Ownership	Voting rights ratio	Ownership	
Internet Services Segment:							
Ebates Inc.	U.S.	0.1 U.S. dollar	100%	100%	100%	100%	
RAKUTEN MARKETING LLC	U.S.	1 U.S. dollar	100%	100%	100%	100%	
OverDrive Holdings, Inc.	U.S.	1 U.S. dollar	100%	100%	—	—	(Note)
FinTech Segment:							
Rakuten Co., Ltd.	Card Tokyo	¥19,324 million	100%	100%	100%	100%	
Rakuten Ltd.	Bank, Tokyo	¥25,954 million	100%	100%	100%	100%	
Rakuten Securities, Inc.	Tokyo	¥7,496 million	100%	100%	100%	100%	
Rakuten General Insurance Ltd.	Co., Tokyo	¥5,153 million	100%	100%	100%	100%	
Rakuten Insurance Ltd.	Life Co., Tokyo	¥7,500 million	100%	100%	100%	100%	
Rakuten Payment, Inc.	Tokyo	¥1,350 million	100%	100%	100%	100%	
Mobile Segment:							
Rakuten Inc.	Mobile, Tokyo	¥100 million	100%	100%	100%	100%	
Rakuten Inc.	Kobo Canada	901 million Canadian dollars	100%	100%	100%	100%	
Rakuten Communications Corp.	Tokyo	¥110 million	100%	100%	100%	100%	
Viber S.a.r.l.	Media Luxembourg	20 thousand U.S. dollars	100%	100%	100%	100%	

(Note) As the Group transferred all its shares in OverDrive Holdings, Inc. to Aragorn Parent Corporation in the second quarter ended June 30, 2020, OverDrive Holdings, Inc. was disposed of.

(2) Changes in Ownership

Fiscal year ended December 31, 2019

There are no special matters to be noted.

Fiscal year ended December 31, 2020

As the Group transferred all its shares in OverDrive Holdings, Inc. to Aragorn Parent Corporation in the second quarter ended June 30, 2020, OverDrive Holdings, Inc. was disposed of. Gain on transfer of stocks of the said subsidiary is described in Note 30. Other Income and Other Expenses.

47. Structured Entities

Consolidated Structured Entities

The Group Companies securitize receivables using trusts, conduct investments through investment funds, and consolidate such structured entities.

These trusts and investment funds, etc. for securitization and other funds are structured entities, which have been designed so that voting or similar rights are not the dominant factor in deciding who controls these entities. Accordingly, it is determined that the Group Companies have control over these structured entities.

In accordance with the contractual arrangements with the structured entities, use of assets and settlement of liabilities of these consolidated structured entities are restricted to the purposes for which they are structured.

The carrying amounts of assets and liabilities of the consolidated structured entities are as follows:

Carrying amounts of assets and liabilities of the consolidated structured entities

(Millions of Yen)

	December 31, 2019	December 31, 2020
Assets		
Loans for credit card business	¥31,726	¥31,588
Investment securities	100,348	90,817
Property, plant and equipment	19,841	24,541
Others	17,578	21,530
Total assets	169,493	168,476
Liabilities		
Bonds and borrowings	18,458	24,500
Others	981	631
Total liabilities	19,439	25,131

Unconsolidated Structured Entities

The Group Companies engage in investment activities involving structured entities as part of their banking business and other businesses as well as insurance business. These structured entities handle securitized products that are set up by third parties and collateralized assets including monetary claims such as auto loans, consumer loans and bonds, various real estates, derivatives, and other bonds. The Group Companies have interests in these structured entities through trust beneficiary interests, etc. The risks of these products are managed regularly on an individual basis under the group management regulations for the banking business and other businesses as well as insurance business, for early recognition and mitigation of the risk of default resulting from deterioration of the debtors' financial conditions and other factors.

The Group Companies do not provide any guarantees or commitments to these structured entities. As a result, the maximum exposure to loss associated with the Group Companies' interests in these unconsolidated structured entities is limited to the carrying amount of the trust beneficiary interests, etc. held therein. The maximum exposure to loss represents the potential maximum loss the Group Companies could incur and does not reflect the likelihood of such a loss being incurred.

The following table shows the summary of the Group Companies' maximum exposure to loss from its interests in these structured entities by class of asset held therein.

Carrying amount of unconsolidated structured entities and maximum exposure to loss from interests in such entities

(Millions of Yen)

Consolidated Statements of Financial Position	Class of asset held by structured entities	December 31, 2019	December 31, 2020
Investment securities for banking business	Securitization products set up by third parties		
	Monetary claims for individual customers	¥62,877	¥91,357
	Lease receivables	28,622	20,693
	Public bonds	—	25,291
	Real estate	—	17,135
	Others	15,946	1,061
Investment securities for insurance business	Securitization products set up by third parties		
	Monetary claims for individual customers	4,025	4,847
	Real estate	156,410	119,982
	Others	5,519	13,732
Total		273,399	294,098

48. Subsequent Events

In the Meeting of the Board of Directors held on March 12, 2021, the Company resolved to issue new shares and dispose of treasury stock through a third-party allotment. On this same date, the Company concluded a share subscription agreement with an allotment to , Japan Post Holdings Co., Ltd., Image Frame Investment (HK) Limited, Walmart Inc., Mikitani Kosan, Inc., and Spirit Inc. From this agreement, payment of 176,643 million yen in relation to 154,273,600 shares was completed on March 29, 2021. Mikitani Kosan, Inc., and Spirit Inc. are considered as related parties, due to these companies being controlled by Group Company executives, major(individual) shareholders and their close relatives.

The overview of the transactions is as follows.

Number of new shares to be issued	Common shares: 211,656,500 shares The number of shares to be issued above represents the total of the 139,737,600 shares offered related to the issue of new shares through third-party allotment and the 71,918,900 shares offered related to the disposal of treasury stock through third-party allotment.
Issue price (Yen)	¥1,145 per share
Amount of proceeds to be raised	¥242,347 million
Amount to be included in capital	¥573 per share
Total amount to be included in capital	¥80,000 million The payment from the disposal of treasury stock through third-party allotment will not be included in capital.
Offering and disposal method (planned allottees)	Through third-party allotment Japan Post Holdings Co., Ltd.: 131,004,000 shares Image Frame Investment (HK) Limited: 57,382,900 shares Walmart Inc.: 14,536,000 shares Mikitani Kosan, Inc.: 4,366,800 shares Spirit Inc.: 4,366,800 shares
Use of proceeds	The proceeds to be raised through the third-party allotment are planned to be used by the end of December 2021 for investment and loan funds to Rakuten Mobile, Inc., a consolidated subsidiary of the Company.
Payment date	From March 29, 2021 to April 30, 2021
Transfer restrictions of the securities, etc.	With regard to the shares to be acquired by the allottees, Japan Post Holdings Co., Ltd., Image Frame Investment (HK) Limited, and Walmart Inc., they have agreed to obtain prior written consent of the Company if the Company's shares held are to be transferred to a third party within 6 months from the payment date of the shares in accordance with the share subscription agreement.

49. Classification of Current and Non-current
As of December 31, 2019

			(Millions of Yen)
	Collection or settlement period		Total
	12 months or less	Over 12 months	
Assets			
Cash and cash equivalents	¥1,478,557	¥—	¥1,478,557
Accounts receivable — trade	217,840	4,645	222,485
Financial assets for securities business	1,975,934	75	1,976,009
Loans for credit card business	1,286,525	541,691	1,828,216
Investment securities for banking business	98,288	174,423	272,711
Loans for banking business	16,160	1,033,833	1,049,993
Investment securities for insurance business	3,025	284,175	287,200
Derivative assets	25,167	2,883	28,050
Investment securities	5,455	157,804	163,259
Other financial assets	209,442	180,792	390,234
Investments in associates and joint ventures	—	177,199	177,199
Property, plant and equipment	—	376,424	376,424
Intangible assets	—	609,450	609,450
Deferred tax assets	—	80,153	80,153
Other assets	121,853	103,904	225,757
Total assets	5,438,246	3,727,451	9,165,697
Liabilities			
Accounts payable — trade	329,483	—	329,483
Deposits for banking business	3,132,076	28,672	3,160,748
Financial liabilities for securities business	1,860,645	—	1,860,645
Derivative liabilities	8,489	1,683	10,172
Bonds and borrowings	584,545	1,142,551	1,727,096
Other financial liabilities	634,133	186,307	820,440
Income taxes payable	12,952	—	12,952
Provisions	102,693	7,152	109,845
Insurance business policy reserves	—	318,090	318,090
Employee retirement benefit liabilities	—	11,374	11,374
Deferred tax liabilities	—	2,049	2,049
Other liabilities	65,369	234	65,603
Total liabilities	6,730,385	1,698,112	8,428,497

As of December 31, 2020

(Millions of Yen)

	Collection or settlement period		Total
	12 months or less	Over 12 months	
Assets			
Cash and cash equivalents	¥3,021,306	¥—	¥3,021,306
Accounts receivable — trade	234,318	9,568	243,886
Financial assets for securities business	2,673,041	188	2,673,229
Loans for credit card business	1,482,048	550,965	2,033,013
Investment securities for banking business	31,436	234,791	266,227
Loans for banking business	248,675	1,187,838	1,436,513
Investment securities for insurance business	9,504	274,465	283,969
Derivative assets	30,735	1,909	32,644
Investment securities	25,476	249,760	275,236
Other financial assets	291,432	201,254	492,686
Investments in associates and joint ventures	—	58,072	58,072
Property, plant and equipment	—	684,110	684,110
Intangible assets	—	639,589	639,589
Deferred tax assets	—	126,203	126,203
Other assets	161,434	96,321	257,755
Total assets	8,209,405	4,315,033	12,524,438
Liabilities			
Accounts payable — trade	337,427	—	337,427
Deposits for banking business	4,696,678	19,484	4,716,162
Financial liabilities for securities business	2,587,227	—	2,587,227
Derivative liabilities	11,177	67,141	78,318
Bonds and borrowings	1,136,303	1,351,154	2,487,457
Other financial liabilities	794,043	337,462	1,131,505
Income taxes payable	8,700	—	8,700
Provisions	149,747	12,832	162,579
Insurance business policy reserves	—	285,336	285,336
Employee retirement benefit liabilities	—	19,272	19,272
Deferred tax liabilities	—	1,920	1,920
Other liabilities	78,793	728	79,521
Total liabilities	9,800,095	2,095,329	11,895,424

(2) [Others]

Quarterly Information for the current fiscal year

(Millions of Yen, unless otherwise stated)

(Cumulative period)	3months ended March 31, 2020	6months ended June 30, 2020	9months ended September 30, 2020	Year ended December 31, 2020
Revenue	¥331,443	¥678,768	¥1,040,190	¥1,455,538
Income (Loss) before income tax	(35,850)	(40,352)	(119,599)	(151,016)
Net income (loss)	(35,400)	(27,824)	(72,406)	(115,838)
Basic earnings (losses) per share (Yen)	(26.03)	(20.24)	(52.60)	(84.00)

(Each quarter)	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter
Basic earnings (losses) per share (Yen)	¥(26.03)	¥5.77	¥(32.33)	¥(31.37)

Independent Auditors' Report

March 30, 2021

The Board of Directors
Rakuten, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Rakuten, Inc. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board as provided for in, pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Rakuten, Inc. resolved to issue new shares and dispose of treasury stock through a third-party allotment in the Meeting of the Board of Directors held on March 12, 2021.

Responsibilities of Management, the Audit & Supervisory Board Member and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by IFRSs, matters related to going concern.

The Audit & Supervisory Board Member and the Audit & Supervisory Board are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to

influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with IFRSs.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit & Supervisory Board Member and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit & Supervisory Board Member and the Audit & Supervisory Board with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Ernst & Young ShinNihon LLC
Tokyo, Japan

March 30, 2021

Takeshi Saida

Takeshi Saida

Designated Engagement Partner
Certified Public Accountant

Isamu Ando

Isamu Ando

Designated Engagement Partner
Certified Public Accountant

Kenji Kuroki

Kenji Kuroki

Designated Engagement Partner
Certified Public Accountant